



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Financial Statements and Supplementary Schedules

June 30, 2010

(With Independent Auditors' Report Thereon)

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

**Table of Contents**

|   | <b>Page(s)</b> |
|---|----------------|
| Independent Auditors' Report  | 1 – 2          |
| Basic Financial Statements:   |                |
| Statement of Net Assets   | 3              |
| Statement of Activities   | 4              |
| Governmental Funds Balance Sheet  | 5              |
| Reconciliation of the Governmental Funds Balance Sheet Total Fund Balances to the<br>Statement of Net Assets                                    | 6              |
| Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances  | 7              |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances<br>of Governmental Funds to the Statement of Activities | 8              |
| Proprietary Funds Statement of Net Assets   | 9              |
| Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets   | 10             |
| Proprietary Funds Statement of Cash Flows   | 11             |
| Fiduciary Fund Statement of Net Assets  | 12             |
| Fiduciary Fund Statement of Changes in Net Assets   | 13             |
| Notes to Basic Financial Statements   | 14             |
| • MassDOT   | 14             |
| • MBTA (Blended Component Unit)   | 42             |
| <b>Other Supplementary Information</b>  |                |
| Massachusetts Transportation Trust Fund Combining Schedule of Balance Sheet Accounts  | 84             |
| Massachusetts Transportation Trust Fund Combining Schedule of Revenues, Expenditures, and<br>Changes in Fund Balances                           | 85             |



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Independent Auditors' Report

Members of the Board of Directors  
Massachusetts Department of Transportation:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Massachusetts Department of Transportation (MassDOT), a component unit of the Commonwealth of Massachusetts, as of June 30, 2010 and for the eight-month period then ended, which collectively comprise MassDOT's basic financial statements, as listed in the table of contents. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of entities which represent 94% and 95% of the total assets and total revenues of the aggregate discretely presented component units or the Owner Controlled Insurance Program, an Internal Service Fund, which represent 13% and less than 1% of the total assets and total revenues of the aggregate remaining fund information and less than 1% of the total assets and total revenues of the governmental activities. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities and funds, are based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MassDOT's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As discussed in note 1(a), MassDOT commenced operations on November 1, 2009. Also as discussed in note 1(m), MassDOT adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* as of November 1, 2009.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of MassDOT at June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the eight-month period then ended in conformity with U.S. generally accepted accounting principles.



MassDOT has not presented Management's Discussion and Analysis that U.S. generally accepted accounting principles has determined necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise MassDOT's basic financial statements. The Other Supplementary Information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2011 on our consideration of MassDOT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

January 10, 2011

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

STATEMENT OF NET ASSETS

JUNE 30, 2010  
(Dollars in thousands)

|   | Primary Government |                  |                   |                |
|---|--------------------|------------------|-------------------|----------------|
|   | Governmental       | Business-type    |                   | Component      |
|   | Activities         | Activities       | Total             | Units          |
| <b>ASSETS AND DEFERRED OUTFLOWS</b>               |                    |                  |                   |                |
| Current assets:                                   |                    |                  |                   |                |
| Cash and short-term investments                   | \$ 115,919         | 112,985          | 228,904           | 15,161         |
| Restricted cash and investments                   | 963,493            | 35,564           | 999,057           | 23,135         |
| Derivative instrument                             | 2,632              | -                | 2,632             | -              |
| Receivables, net of allowance for uncollectibles: |                    |                  |                   |                |
| Due from Commonwealth                             | 246,553            | 120,342          | 366,895           | 66,823         |
| Due from federal government                       | 308                | 7,009            | 7,317             | 32,947         |
| Other   | 64,371             | 14,820           | 79,191            | 52,845         |
| Other assets                                      | 4,184              | 107,748          | 111,932           | 5,723          |
|   | <u>1,397,460</u>   | <u>398,468</u>   | <u>1,795,928</u>  | <u>196,634</u> |
| Noncurrent assets:                                |                    |                  |                   |                |
| Restricted cash and investments                   | 118,045            | 728,640          | 846,685           | -              |
| Other assets                                      | 12,139             | 181,442          | 193,581           | 11,520         |
| Capital assets:                                   |                    |                  |                   |                |
| Nondepreciable                                    | 2,829,805          | 791,399          | 3,621,204         | 28,691         |
| Depreciable, net of accumulated depreciation      | 19,032,645         | 7,354,049        | 26,386,694        | 249,921        |
|   | <u>21,992,634</u>  | <u>9,055,530</u> | <u>31,048,164</u> | <u>290,132</u> |
| Deferred outflows from derivative instruments     | 80,613             | 98,665           | 179,278           | -              |
|   | <u>80,613</u>      | <u>98,665</u>    | <u>179,278</u>    | <u>-</u>       |
|   | <u>23,470,707</u>  | <u>9,552,663</u> | <u>33,023,370</u> | <u>486,766</u> |
| <b>LIABILITIES</b>                                |                    |                  |                   |                |
| Current liabilities:                              |                    |                  |                   |                |
| Accounts payable and accrued expenses             | 442,185            | 121,308          | 563,493           | 33,769         |
| Deferred revenue                                  | 46,807             | -                | 46,807            | 652            |
| Accrued interest                                  | 10,814             | 127,725          | 138,539           | 2,304          |
| Bonds and notes payable                           | 19,276             | 266,975          | 286,251           | 136,383        |
| Capital lease obligations                         | -                  | 36,871           | 36,871            | -              |
| Other liabilities                                 | 44,494             | 65,530           | 110,024           | 578            |
|   | <u>563,576</u>     | <u>618,409</u>   | <u>1,181,985</u>  | <u>173,686</u> |
| Noncurrent liabilities:                           |                    |                  |                   |                |
| Accrued interest on capital appreciation bonds    | 91,960             | -                | 91,960            | -              |
| Bonds payable                                     | 2,176,335          | 5,255,145        | 7,431,480         | 36,600         |
| Capital lease obligations                         | -                  | 262,159          | 262,159           | -              |
| Net OPEB and pension obligation                   | -                  | 327,265          | 327,265           | 6,477          |
| Liability for derivative instruments              | 316,605            | 120,542          | 437,147           | -              |
| Other liabilities                                 | 104,009            | 125,151          | 229,160           | 9,996          |
|   | <u>2,688,909</u>   | <u>6,090,262</u> | <u>8,779,171</u>  | <u>53,073</u>  |
|   | <u>3,252,485</u>   | <u>6,708,671</u> | <u>9,961,156</u>  | <u>226,759</u> |
| <b>NET ASSETS</b>                                 |                    |                  |                   |                |
| Invested in capital assets, net of related debt   | 19,666,839         | 3,308,851        | 22,975,690        | 276,975        |
| Restricted for other purposes                     | 942,819            | 19,251           | 962,070           | 2,722          |
| Unrestricted (deficit)                            | (391,436)          | (484,110)        | (875,546)         | (19,690)       |
|   | <u>20,218,222</u>  | <u>2,843,992</u> | <u>23,062,214</u> | <u>260,007</u> |

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

STATEMENT OF ACTIVITIES

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010

(Dollars in thousands)

| Functions/Programs   | Program Revenues |                      |                                    |                                  | Net (Expense)/Revenue and Changes in Net Assets |                          |             |                 |
|--|------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-------------|-----------------|
|  | Expenses         | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government                              |                          |             | Component Units |
|  |                  |                      |                                    |                                  | Governmental Activities                         | Business-Type Activities | Total       |                 |
| <b>Primary government:</b>   |                  |                      |                                    |                                  |   |                          |             |                 |
| Governmental activities:   |                  |                      |                                    |                                  |   |                          |             |                 |
| Highway  | \$ 1,340,232     | 246,031              | 126,581                            | 809,148                          | (158,472)                                       | -                        | (158,472)   | -               |
| Planning and programming   | 81,447           | -                    | -                                  | 38,832                           | (42,615)  | -                        | (42,615)    | -               |
| Registry of motor vehicles   | 49,338           | 21,247               | 2,946                              | -                                | (25,145)  | -                        | (25,145)    | -               |
| Mass Transit   | 36,427           | -                    | 13,305                             | 64,175                           | 41,053  | -                        | 41,053      | -               |
| Aeronautics  | 5,237            | -                    | -                                  | 5,059                            | (178)   | -                        | (178)       | -               |
| Debt service - interest  | 97,319           | -                    | -                                  | -                                | (97,319)  | -                        | (97,319)    | -               |
| Total governmental activities  | 1,610,000        | 267,278              | 142,832                            | 917,214                          | (282,676)                                       | -                        | (282,676)   | -               |
| Business-type activities:  |                  |                      |                                    |                                  |   |                          |             |                 |
| Massachusetts Bay Transportation Authority                                 | 1,929,968        | 499,642              | -                                  | 234,733                          | -   | (1,195,593)              | (1,195,593) | -               |
| Total primary government   | 3,539,968        | 766,920              | 142,832                            | 1,151,947                        | (282,676)                                       | (1,195,593)              | (1,478,269) | -               |
| <b>Component units:</b>  |                  |                      |                                    |                                  |   |                          |             |                 |
| Discretely presented component units                                       | 306,318          | 153,977              | 118,750                            | 52,997                           |   |                          |             | 19,406          |
| Total component units  | \$ 306,318       | 153,977              | 118,750                            | 52,997                           |   |                          |             | 19,406          |
| <i>General revenues:</i>   |                  |                      |                                    |                                  |   |                          |             |                 |
| Operating assistance from the Commonwealth                                 |                  |                      |                                    |                                  | 123,445   | -                        | 123,445     | -               |
| Taxes and assessments  |                  |                      |                                    |                                  | -   | 1,077,205                | 1,077,205   | -               |
| Other income   |                  |                      |                                    |                                  | -   | 22,426                   | 22,426      | -               |
| Total General Revenues   |                  |                      |                                    |                                  | 123,445   | 1,099,631                | 1,223,076   | -               |
| <i>Special item - construction in progress transfer to separate entity</i> |                  |                      |                                    |                                  | -   | -                        | -           | (14,680)        |
| Change in net assets   |                  |                      |                                    |                                  | (159,231)                                       | (95,962)                 | (255,193)   | 4,726           |
| Net assets - beginning of period   |                  |                      |                                    |                                  | 20,377,453                                      | 2,939,954                | 23,317,407  | 255,281         |
| Net assets - end of period   |                  |                      |                                    |                                  | \$ 20,218,222                                   | 2,843,992                | 23,062,214  | 260,007         |

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2010  
(Dollars in thousands)

|  | MTTF<br>(General) | Highway<br>Capital<br>Projects | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>ASSETS</b>                              |                   |                                |                                |                                |
| Cash and short-term investments            | \$ 106,845        | -                              | 9,074                          | 115,919                        |
| Restricted cash and investments            | 517,341           | 73,652                         | 417,939                        | 1,008,932                      |
| Receivables:                               |                   |                                |                                |                                |
| Due from Commonwealth                      | -                 | 246,553                        | -                              | 246,553                        |
| Due from federal government                | -                 | -                              | 308                            | 308                            |
| Other, net of allowance                    | 59,371            | -                              | 15,000                         | 74,371                         |
| Other assets                               | 3,605             | -                              | -                              | 3,605                          |
| <b>TOTAL ASSETS</b>                        | <b>\$ 687,162</b> | <b>320,205</b>                 | <b>442,321</b>                 | <b>1,449,688</b>               |
| <b>LIABILITIES AND FUND BALANCES</b>       |                   |                                |                                |                                |
| <b>LIABILITIES:</b>                        |                   |                                |                                |                                |
| Accounts payable and accrued expenditures  | \$ 153,912        | 247,402                        | 9,021                          | 410,335                        |
| Deferred revenue                           | 46,807            | -                              | 15,000                         | 61,807                         |
| <b>TOTAL LIABILITIES</b>                   | <b>200,719</b>    | <b>247,402</b>                 | <b>24,021</b>                  | <b>472,142</b>                 |
| <b>FUND BALANCES:</b>                      |                   |                                |                                |                                |
| Reserved                                   | 451,716           | 72,803                         | 418,300                        | 942,819                        |
| Unreserved                                 | 34,727            | -                              | -                              | 34,727                         |
| <b>TOTAL FUND BALANCES</b>                 | <b>486,443</b>    | <b>72,803</b>                  | <b>418,300</b>                 | <b>977,546</b>                 |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 687,162</b> | <b>320,205</b>                 | <b>442,321</b>                 | <b>1,449,688</b>               |

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS

JUNE 30, 2010  
(Dollars in thousands)

---

|   |                      |
|---|----------------------|
| Total governmental fund balances  | \$ 977,546           |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.  | 21,862,450           |
| Receivables that are measurable but not available are deferred in the governmental funds but recognized as revenue on a full accrual basis  | 15,000               |
| In the statement of net assets, bond issue costs are amortized over the life of bonds whereas in the governmental funds bond issue costs are expensed as incurred   | 2,378                |
| In the statement of net assets, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due.  | (102,774)            |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.   |                      |
| Bonds and notes payable, net  | (2,195,611)          |
| Workers' compensation claims  | (25,075)             |
| Other claims and judgments  | (50,000)             |
| Compensated absences  | (40,228)             |
| Derivative instruments, net   | (233,360)            |
| An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. | <u>7,896</u>         |
| Net assets of governmental activities   | <u>\$ 20,218,222</u> |

See notes to basic financial statements.



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010

(Dollars in thousands)

|  | MTTF<br>(General) | Highway<br>Capital<br>Projects | Other<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|-------------------|--------------------------------|--------------------------------|--------------------------------|
| <b>REVENUES</b>  |                   |                                |                                |                                |
| Toll revenue:  |                   |                                |                                |                                |
| Pledged as security for revenue bonds                    | \$ 187,077        | -                              | -                              | 187,077                        |
| Unpledged  | 14,580            | -                              | -                              | 14,580                         |
| Commonwealth transportation funding:                     |                   |                                |                                |                                |
| Operations   | 123,445           | -                              | -                              | 123,445                        |
| Metropolitan highway system bonds                        | 66,667            | -                              | -                              | 66,667                         |
| Central artery operations and maintenance                | 25,000            | -                              | -                              | 25,000                         |
| Commonwealth grants and contract assistance              | -                 | 370,071                        | -                              | 370,071                        |
| Federal grants and reimbursements:                       |                   |                                |                                |                                |
| Passed through the Commonwealth                          | -                 | 442,072                        | -                              | 442,072                        |
| Direct   | -                 | -                              | 14,120                         | 14,120                         |
| Rental/lease income                                      | 22,235            | -                              | -                              | 22,235                         |
| Investment income  | 3,853             | 52                             | 1,042                          | 4,947                          |
| Departmental and other                                   | 22,136            | -                              | 54,662                         | 76,798                         |
| <b>TOTAL REVENUES</b>                                    | <b>464,993</b>    | <b>812,195</b>                 | <b>69,824</b>                  | <b>1,347,012</b>               |
| <b>EXPENDITURES</b>                                      |                   |                                |                                |                                |
| Current:   |                   |                                |                                |                                |
| Highway  | 228,621           | 746,545                        | 26,086                         | 1,001,252                      |
| Planning and programming                                 | 42,640            | 38,832                         | 7,373                          | 88,845                         |
| Registry of motor vehicles                               | 35,283            | -                              | 13,822                         | 49,105                         |
| Mass transit   | -                 | 64,185                         | 12,001                         | 76,186                         |
| Aeronautics  | 230               | 4,718                          | 271                            | 5,219                          |
| Debt service:  |                   |                                |                                |                                |
| Principal  | 90,996            | -                              | -                              | 90,996                         |
| Interest   | 119,709           | -                              | -                              | 119,709                        |
| <b>TOTAL EXPENDITURES</b>                                | <b>517,479</b>    | <b>854,280</b>                 | <b>59,553</b>                  | <b>1,431,312</b>               |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> | <b>(52,486)</b>   | <b>(42,085)</b>                | <b>10,271</b>                  | <b>(84,300)</b>                |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                   |                                |                                |                                |
| Transfers in   | -                 | 4,540                          | 53,917                         | 58,457                         |
| Transfers out  | (53,917)          | -                              | -                              | (53,917)                       |
| Issuance of refunding bonds                              | 1,943,530         | -                              | -                              | 1,943,530                      |
| Premium from issuance of refunding bonds                 | 62,454            | -                              | -                              | 62,454                         |
| Debt service - principal - current refunding             | (1,995,463)       | -                              | -                              | (1,995,463)                    |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>              | <b>(43,396)</b>   | <b>4,540</b>                   | <b>53,917</b>                  | <b>15,061</b>                  |
| <b>NET CHANGE IN FUND BALANCES</b>                       | <b>(95,882)</b>   | <b>(37,545)</b>                | <b>64,188</b>                  | <b>(69,239)</b>                |
| <b>FUND BALANCES AT BEGINNING OF PERIOD</b>              | <b>582,325</b>    | <b>110,348</b>                 | <b>354,112</b>                 | <b>1,046,785</b>               |
| <b>FUND BALANCES AT END OF PERIOD</b>                    | <b>\$ 486,443</b> | <b>72,803</b>                  | <b>418,300</b>                 | <b>977,546</b>                 |

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010  
(Dollars in thousands)

|  |                     |
|--|---------------------|
| Net change in fund balances - total governmental funds   | \$ (69,239)         |
| <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>  |                     |
| Capital outlays  | 201,618             |
| Depreciation   | (437,792)           |
| Contributed capital assets are reported in the statement of activities as capital contributions but are not reported in the governmental funds   | 79,665              |
| <p>In the statement of activities, only the gain/(loss) on the disposal of capital assets is reported, whereas in the governmental funds the proceeds from the disposal increase financial resources. As a result, the change in net assets differs from the change in fund balance by the net book value of the disposed capital assets</p>   |                     |
|  | (2,549)             |
| <p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p> |                     |
| Proceeds of refunding bonds (current)  | (1,943,530)         |
| Bond maturities  | 2,086,460           |
| Amortization and net effect of premiums, deferred losses on refundings, discounts and bond issue costs   | (55,200)            |
| <p>Derivatives are reported in the government-wide statements but are not reported in the governmental funds.</p>  |                     |
| Changes in liability for derivative instruments and amortization of hedging derivative premiums  | 25,808              |
| <p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable</p>  |                     |
|  | 21,817              |
| <p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.</p>   |                     |
| These amounts represent the net changes in accruals:   |                     |
| Workers' compensation  | (2,745)             |
| Compensated absences   | (604)               |
| Claims and judgments   | (50,000)            |
| <p>An internal service fund is used by management to manage its OCIP program related to the central artery construction project. The net activity of the internal service fund is reported with governmental activities.</p>   |                     |
|  | (12,940)            |
| Changes in net assets of governmental activities   | \$ <u>(159,231)</u> |

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2010  
(Dollars in thousands)

|   | Business-Type<br>Activities -<br>Enterprise Fund | Governmental<br>Activities -<br>Internal<br>Service<br>Fund |
|---|--|---|
|   | <u>MBTA</u>                                      | <u>Fund</u>   |
| <b>ASSETS AND DEFERRED OUTFLOWS</b>               |  |   |
| Current assets:                                   |  |   |
| Unrestricted cash and short-term investments      | \$ 112,985                                       | -   |
| Restricted cash and investments                   | 35,564   | 72,606  |
| Lease accounts                                    | 33,646   | -   |
| Receivables, net of allowance for uncollectibles: |  |   |
| Due from Commonwealth                             | 120,342  | -   |
| Due from federal government                       | 7,009  | -   |
| Other   | 14,820   | -   |
| Other assets                                      | <u>74,102</u>                                    | <u>340</u>  |
| Total current assets                              | <u>398,468</u>                                   | <u>72,946</u>   |
| Noncurrent assets:                                |  |   |
| Restricted cash and investments                   | 728,640  | -   |
| Lease accounts                                    | 153,628  | -   |
| Deferred bond issue costs                         | 27,814   | -   |
| Capital assets:                                   |  |   |
| Nondepreciable                                    | 791,399  | -   |
| Depreciable, net of accumulated depreciation      | <u>7,354,049</u>                                 | <u>-</u>  |
| Total noncurrent assets                           | <u>9,055,530</u>                                 | <u>-</u>  |
| Deferred outflows from derivative instruments     | <u>98,665</u>                                    | <u>-</u>  |
| Total assets and deferred outflows                | <u>9,552,663</u>                                 | <u>72,946</u>   |
| <b>LIABILITIES</b>                                |  |   |
| Current liabilities:                              |  |   |
| Accounts payable and accrued expenses             | 121,308  | 31,851  |
| Accrued interest                                  | 127,725  | -   |
| Bonds payable                                     | 266,975  | -   |
| Capital lease obligations                         | 36,871   | -   |
| Other liabilities                                 | <u>65,530</u>                                    | <u>11,400</u>   |
| Total current liabilities                         | <u>618,409</u>                                   | <u>43,251</u>   |
| Noncurrent liabilities:                           |  |   |
| Bonds payable                                     | 5,255,145  | -   |
| Capital lease obligations                         | 262,159  | -   |
| Net OPEB and pension obligation                   | 327,265  | -   |
| Liability for derivative instruments              | 120,542  | -   |
| Other liabilities                                 | <u>125,151</u>                                   | <u>21,800</u>   |
| Total noncurrent liabilities                      | <u>6,090,262</u>                                 | <u>21,800</u>   |
| Total liabilities                                 | <u>6,708,671</u>                                 | <u>65,051</u>   |
| <b>NET ASSETS</b>                                 |  |   |
| Invested in capital assets, net of related debt   | 3,308,851  | -   |
| Restricted for other purposes                     | 19,251   | 7,896   |
| Unrestricted (deficit)                            | <u>(484,110)</u>                                 | <u>-</u>  |
| Total net assets                                  | <u>\$ 2,843,992</u>                              | <u>7,896</u>  |

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010  
(Dollars in thousands)

|   | Business-Type<br>Activities -<br><u>Enterprise Fund</u> | Governmental<br>Activities -<br>Internal<br>Service<br>Fund |
|---|---|---|
|   | <u>MBTA</u>   |   |
| <b>OPERATING REVENUES</b>                                     |   |   |
| Revenue from transportation                                   | \$ 439,322  | -   |
| Other   | <u>60,320</u>   | <u>-</u>  |
| TOTAL OPERATING REVENUES                                      | <u>499,642</u>  | <u>-</u>  |
| <b>OPERATING EXPENSES</b>                                     |   |   |
| Salaries and benefits   | 708,635   | -   |
| Materials, supplies and services                              | 190,593   | -   |
| Injuries, damages and claims                                  | 14,054  | 8,665   |
| Commuter railroad and local subsidy                           | 366,797   | -   |
| Other   | 17,454  | -   |
| Depreciation and amortization                                 | <u>348,567</u>  | <u>-</u>  |
| TOTAL OPERATING EXPENSES                                      | <u>1,646,100</u>  | <u>8,665</u>  |
| OPERATING INCOME (LOSS)                                       | <u>(1,146,458)</u>                                      | <u>(8,665)</u>  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>                       |   |   |
| Dedicated sales tax   | 767,057   | -   |
| Contract assistance - Commonwealth of Massachusetts           | 160,000   | -   |
| Dedicated local assessments                                   | 150,148   | -   |
| Fair value change in investment derivatives                   | (3,404)   | -   |
| Other income  | 5,334   | 139   |
| Investment income   | 20,496  | 126   |
| Interest expense  | <u>(283,868)</u>  | <u>-</u>  |
| TOTAL NONOPERATING REVENUES (EXPENSES), NET                   | <u>815,763</u>  | <u>265</u>  |
| LOSS BEFORE CAPITAL GRANTS AND CONTRIBUTIONS<br>AND TRANSFERS | (330,695)   | (8,400)   |
| Capital grants and contributions                              | 234,733   | -   |
| Transfers out   | <u>-</u>  | <u>(4,540)</u>  |
| CHANGE IN NET ASSETS  | (95,962)  | (12,940)  |
| NET ASSETS AT BEGINNING OF PERIOD                             | <u>2,939,954</u>  | <u>20,836</u>   |
| NET ASSETS AT END OF PERIOD                                   | <u>\$ 2,843,992</u>                                     | <u>7,896</u>  |

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010  
(Dollars in thousands)

|   | Business-Type<br>Activities -<br>Enterprise Fund | Governmental<br>Activities -<br>Internal<br>Service<br>Fund |
|---|--|---|
|   | MBTA   |   |
| <b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES</b>   |  |   |
| Receipts from customers and users   | \$ 497,728                                       | -   |
| Transfers from third party  | -  | 11,114  |
| Payments to suppliers and vendors   | (768,393)  | -   |
| Payments to employees   | (447,088)  | -   |
| Claims, premiums and judgments paid   | -  | (3,571)   |
|   | <u>          </u>                                | <u>          </u>   |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES  | (717,753)  | 7,543   |
| <b>CASH FLOWS FROM (USED IN) NONCAPITAL FINANCING ACTIVITIES</b>                                    |  |   |
| Sales tax and local assessment  | 1,081,165  | -   |
| Reimbursable payments   | 3,845  | -   |
| Transfers out   | -  | (4,400)   |
|   | <u>          </u>                                | <u>          </u>   |
| NET CASH FROM (USED IN) NONCAPITAL FINANCING ACTIVITIES   | 1,085,010  | (4,400)   |
| <b>CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                  |  |   |
| Proceeds from the issuance of bonds and notes   | 276,400  | -   |
| Premium from the issuance of bonds and notes  | 10,375   | -   |
| Net proceeds (payments) of capital lease activity   | 2,991  | -   |
| Capital grants  | 238,114  | -   |
| Acquisition and construction of capital assets  | (374,553)  | -   |
| Principal payments on bonds and notes   | (164,945)  | -   |
| Proceeds (payments) from/to bond construction and reserve accounts                                  | (106,939)  | -   |
| Interest expense  | (272,133)  | -   |
| Increase in deferred credits/charges  | (2,094)  | -   |
| Increase in lease deposit/account   | (6,110)  | -   |
| Other   | (3,152)  | -   |
|   | <u>          </u>                                | <u>          </u>   |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES   | (402,046)  | -   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |  |   |
| Proceeds from sales of investments  | -  | 108,708   |
| Purchases of investments  | -  | (90,615)  |
| Investment income (loss)  | 25,830   | (181)   |
|   | <u>          </u>                                | <u>          </u>   |
| NET CASH FROM INVESTING ACTIVITIES  | 25,830   | 17,912  |
| <b>NET CHANGE IN CASH AND SHORT-TERM INVESTMENTS</b>  | (8,959)  | 21,055  |
| <b>CASH AND AND SHORT-TERM INVESTMENTS, BEGINNING OF YEAR</b>                                       | 157,508  | 32,335  |
| <b>CASH AND AND SHORT-TERM INVESTMENTS, END OF YEAR</b>   | \$ 148,549                                       | 53,390 (a)  |
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>             |  |   |
| Operating income (loss)   | \$ (1,146,458)                                   | (8,665)   |
| Adjustments to reconcile operating income (loss) to net cash from operating activities:             |  |   |
| Charges not requiring current expenditure of cash:  |  |   |
| Depreciation  | 348,567  | -   |
| Increase in pension liability   | 11,993   | -   |
| Increase in net OPEB liability  | 80,836   | -   |
| Changes in all other working capital accounts, except cash and cash equivalents and short-term debt | (12,691)   | 16,208  |
|   | <u>          </u>                                | <u>          </u>   |
| Total adjustments   | 428,705  | 16,208  |
| <b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>   | \$ (717,753)                                     | 7,543   |

Supplemental disclosure of cash flow activities:

In fiscal 2010, sales tax bonds in the aggregate principal amount of \$159,275 were issued to defease \$161,015 of bonds outstanding.

Residual market credits issued by a third party and retained by MassDOT totaled \$139.

(a) This amount is included in restricted cash and investments in the statement of net assets  
See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

FIDUCIARY FUND  
STATEMENT OF NET ASSETS

JUNE 30, 2010  
(Dollars in thousands)

|  | Other Post-<br>Employment<br>Benefits Trust |
|--|---|
| <b>ASSETS</b>                                    |   |
| Cash and short-term investments                  | \$ 3,413                                    |
| Investments:                                     |   |
| U.S. Treasury bonds                              | 6,922                                       |
| U.S. Agency securities                           | 9,312                                       |
| Corporate bonds                                  | 7,488                                       |
| Other fixed income securities                    | 2,801                                       |
| Equity securities                                | 25,347                                      |
| Receivables:                                     |   |
| Investments sold                                 | 557   |
| Interest and other                               | 193   |
|  | <hr/>                                       |
| Total assets                                     | 56,033                                      |
|  | <hr/>                                       |
| <b>LIABILITIES</b>                               |   |
| Payable for investments purchased                | 1,178                                       |
|  | <hr/>                                       |
| Total liabilities                                | 1,178                                       |
|  | <hr/>                                       |
| <b>NET ASSETS</b>                                |   |
| Held in trust for other post-employment benefits | \$ 54,855                                   |
|  | <hr/> <hr/>                                 |

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

FIDUCIARY FUND  
STATEMENT OF CHANGES IN NET ASSETS

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010

(Dollars in thousands)

|  | <u>Other Post-<br/>Employment<br/>Benefits Trust</u> |
|--|--|
| <b>ADDITIONS</b>   |  |
| Net investment income:                                       |  |
| Net appreciation/(depreciation) in fair value of investments | \$ 473   |
| Interest   | 787  |
| Dividends  | <u>1,007</u>   |
| Total investment income                                      | 2,267  |
| Less investment expense                                      | <u>(116)</u>   |
| CHANGE IN NET ASSETS   | 2,151  |
| NET ASSETS AT BEGINNING OF PERIOD                            | <u>52,704</u>  |
| NET ASSETS AT END OF PERIOD                                  | <u>\$ 54,855</u>                                     |

See notes to basic financial statements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(1) Summary of Significant Accounting Policies and Practices**

**(a) Description of Business**

The Massachusetts Department of Transportation (MassDOT) was established by Chapter 25 of the Acts of 2009 of the Commonwealth of Massachusetts (as amended, the Transportation Reform Act), which was enacted and approved in June 2009. The Transportation Reform Act was designed to reform the transportation system of the Commonwealth of Massachusetts (the Commonwealth) and created the new authority, MassDOT, through enactment of Chapter 6C of Massachusetts General Laws (the Enabling Act). MassDOT has a separate legal existence from the Commonwealth and is governed by a five-member board appointed by the Governor. The Governor has appointed a Secretary of MassDOT, who serves as MassDOT's chief executive officer. The Board of Directors of MassDOT was authorized to begin exercising its powers on November 1, 2009.

MassDOT was created through the transfer of the assets, liabilities and equity of:

1. The former Massachusetts Turnpike Authority (including both the Metropolitan Highway System and the Western Turnpike), which was dissolved as part of the legislation
  - a. The Metropolitan Highway System comprises the Boston Extension of the Turnpike, the Callahan Tunnel, the Central Artery/Tunnel (CA/T Project), the Central Artery North Area (CANAN), the Sumner Tunnel and the Ted Williams Tunnel. The Western Turnpike consists of that portion of the Turnpike extending from the New York border in the Town of West Stockbridge to Route 128 in Weston.
  - b. MassDOT assumed the rights, powers, and duties of the former Massachusetts Turnpike Authority upon the November 1, 2009 transfer
2. The operations of the Massachusetts Highway Department of the Commonwealth
3. The operations of the Massachusetts Aeronautic Commission
4. The operations of the Registry of Motor Vehicles of the Commonwealth
5. Certain assets of the Department of Conservation and Recreation (DCR) of the Commonwealth

In addition, the Tobin Bridge (including its associated land and buildings) was transferred from the Massachusetts Port Authority (effective January 1, 2010).

MassDOT has an office of planning and programming and four divisions including highways, mass transit, aeronautics, and the registry of motor vehicles that share administrative functions such as human resources, financial management, information technology, and planning. Each division is headed by an administrator appointed by the Secretary of MassDOT.



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The legislation established the Massachusetts Transportation Trust Fund (MTTF) within MassDOT, into which all bridge, tunnel and highway tolls, together with certain other funds, are deposited. Transit fares of the Massachusetts Bay Transportation Authority (MBTA) may be deposited into the MTTF upon agreement of MassDOT and the MBTA.

The MTTF is to be used for operations, maintenance and capital costs related to the transportation assets under MassDOT's jurisdiction, including MBTA assets and assets of MassDOT transferred pursuant to the legislation, as well as debt service on outstanding MassDOT debt (previously held by the dissolved Massachusetts Turnpike Authority). MassDOT debt is not debt of the Commonwealth. The MTTF is not subject to appropriation and year-end balances do not revert to the Commonwealth.

Other activities transferred from the Commonwealth to MassDOT include the following: (1) the Central Artery and Statewide Road and Bridge Infrastructure Fund; (2) the Central Artery Repairs and Maintenance Trust Fund; (3) the Highway Capital Projects Fund; (4) the Federal Highway Construction Program; (5) the Motor Vehicle Safety Inspection Trust Fund; (6) the Owner Controlled Insurance Program (OCIP) Fund related to the Central Artery/Tunnel Project and (7) various other administrative trusts that the former Highway Department of the Commonwealth maintained.

Other activities transferred from the former Massachusetts Turnpike Authority include the Other Post-Employment Benefits Trust.

The legislation contemplates that the Legislature of the Commonwealth will continue to make capital appropriations for transportation improvements and that such appropriations will continue to be funded through the issuance of Commonwealth debt by the State Treasurer. Outstanding capital spending authorizations are to be made available to MassDOT by the Secretary of Administration and Finance.

The legislation also established the Commonwealth Transportation Fund (CTF) as a budgetary fund of the Commonwealth for transportation-related purposes, which receives essentially the same revenues that were deposited into the Commonwealth's Highway Fund, including gasoline tax receipts and registry fees. The CTF shall be subject to appropriation and shall be used for transportation related expenses of the executive office of transportation or any successor agency or authority, including to pay or reimburse the Commonwealth's General Fund for payment of debt service on bonds issued by or otherwise payable pursuant to a lease or other contract assistance agreement by the Commonwealth for transportation purposes.

Legislation approved by the Governor in fiscal 2010 provides that the CTF will also receive the sales tax receipts (0.385%) dedicated to transportation purposes, with a guaranteed annual payment of \$275,000. The guaranteed amount of \$275,000 includes \$100,000 earmarked for costs including debt service on MassDOT debt, \$160,000 earmarked for the MBTA, and \$15,000 earmarked for the regional transit authorities.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

In addition, the CTF is used to pay debt service (present and future) associated with highway maintenance and construction projects and provides the funding of MassDOT's annual operating budget. For the eight months ended June 30, 2010, MassDOT received \$205,000 from the CTF for operations (\$123,000), debt service (\$67,000) and the regional transit authorities (\$15,000).

Finally, MGL Chapter 235 authorizes the Commonwealth to annually reimburse MassDOT for the cost of the operation and maintenance of the CA/T Project and CANA. MassDOT received \$25,000 during the eight month period ended June 30, 2010 for such reimbursement.

MassDOT is a component unit of the Commonwealth. MassDOT's financial statements are incorporated into the financial statements of the Commonwealth.

**(b) Basis of Presentation**

The accompanying financial statements of MassDOT have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, MassDOT has included all funds, organizations, agencies, boards and commissions considered part of the MassDOT legal entity. MassDOT has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with MassDOT is such that exclusion would cause MassDOT's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present MassDOT (the primary government) and its component units. The information pertaining to the primary government appears in footnotes 1 through 12.

*Blended Component Units* – Blended component units are entities that are legally separate from MassDOT, but are so related to MassDOT, that they are, in substance, the same as MassDOT because their governing board is the same as that of MassDOT or the entities provide services entirely or almost entirely to MassDOT. The Massachusetts Bay Transportation Authority (MBTA) is the only legally separate entity that meets the criteria as a blended component unit. The information pertaining to the MBTA appears in footnote 13.

*Discretely Presented Component Units* – MassDOT presents the following fifteen (15) regional transit authorities (RTAs) and one transportation association as discretely presented component units: Berkshire Regional Transit Authority; Brockton Area Transit Authority; Cape Ann Transportation Authority; Cape Cod Regional Transit Authority; Franklin Regional Transit Authority; Greater Attleboro-Taunton Regional Transit Authority; Lowell Regional Transit Authority; Montachusett Regional Transit Authority; Metrowest Regional Transit Authority; Merrimack Valley Regional Transit Authority; Nantucket Regional Transit Authority; Pioneer Valley Transit Authority; Route 3 North Transportation Improvement Association; Southeastern Regional Transit Authority; Martha's Vineyard Transit Authority; the Worcester Regional Transit

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

Authority; and Route 3 North Transportation Improvements Association, Inc. MassDOT does not consider any of the discretely presented component units to be major.

Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, MassDOT's proprietary funds and applicable component units follow all GASB pronouncements and those Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

The separately audited financial statements of MassDOT's component units may be obtained by directly contacting the various entities.

For financial reporting purposes, the activities of MassDOT, including its fiduciary funds, are presented as of and for the eight-month period ended June 30, 2010. The MBTA, a blended component unit, and all of the discretely presented component units are presented as of and for the year ended June 30, 2010.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are defined as either governmental or business-type activities. MassDOT's governmental activities generally are financed through toll revenues, contract assistance from the Commonwealth, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

The statement of net assets presents all of the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributed to the acquisition, construction or improvement of those assets.
- *Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through enabling legislation.
- *Unrestricted net assets* consist of net assets, which do not meet the definition of the two preceding categories.

When both restricted and unrestricted resources are available for use, it is MassDOT's policy to use restricted resources first, then unrestricted resources as needed.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include (1) charges to customers who purchase, use, or directly benefit from goods or services provided by a given function; (2) grants and contributions that are restricted to meeting the operational requirements of a specific function and (3) grants and contributions that are restricted to meeting the capital requirements of a specific function. Other items not meeting the definition of program revenues are instead reported as general revenue and offset or supplant the net operating deficit or surplus from governmental or business-type activities.

As a general rule, the effect of interfund activity has been eliminated in the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned. Interfund receivables and payables have been eliminated from the statement of net assets, except for the residual amounts due between governmental and business-type activities.

**Fund Financial Statements**

MassDOT reports its financial position and results of operations in funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Separate financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements pursuant to GASB reporting standards, with nonmajor funds being combined into a single column.

MassDOT is not required to and does not have a legally adopted annual budget for any of its governmental funds.

**(c) Measurement Focus and Basis of Accounting**

The Government-wide financial statements are reported using the economic resources management focus and the full accrual basis of accounting as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements account for the general governmental activities of MassDOT. Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual and are both measurable and available. Revenues are considered to be

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Significant revenues susceptible to accrual include expenditure driven federal grants and amounts due from the Commonwealth. MassDOT considers all revenues available if they are collected within 60 days after fiscal year end. For federal expenditure driven grants, revenue is recognized when the qualifying expenditures have been incurred and other eligibility requirements are met and amounts are considered available. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities and expenditures when due. Compensated absences, claims and judgments, termination benefits, and similar activities are recognized to the extent that they are normally expected to be liquidated with expendable available financial resources.

MassDOT reports the following fund types:

**Governmental Fund Types**

The General Fund, is the primary operating fund of MassDOT. It is used to account for all governmental transactions, except those required to be accounted for in another fund. The MTTF is considered the general fund for MassDOT.

The Special Revenue Funds account for specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditure for specified purposes.

The Capital Projects Funds account for financial resources to be used for the acquisition or construction of capital facilities.

Within the governmental fund types, MassDOT has established the following major fund, in addition to the MTTF:

*Highway Capital Projects Fund*, a capital projects fund, accounts for highway construction projects financed primarily through federal reimbursements passed through the Commonwealth and contract assistance payments received directly from the Commonwealth.

**Proprietary Fund Types**

Proprietary funds account for programs financed in whole or in part by fees charged to external parties for goods and services. MassDOT reports the MBTA (a blended component unit) as a major enterprise fund. MassDOT also operates one internal service fund – the Owner Controlled Insurance Program.

Revenues and expenses of proprietary funds are classified as operating or nonoperating as follows – operating revenues and expenses generally result from providing services or producing and delivering goods. All other revenues and expenses are reported as nonoperating.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**Fiduciary Fund Types**

MassDOT reports an Employee Benefits Trust Fund for the assets held in trust for the payment of other post employment benefits (OPEB) for former employees/retirees of the Massachusetts Turnpike Authority. See note 7(c) for additional information.

**(d) *Cash and Short-Term Investments***

The Treasurer of the Commonwealth (Treasurer) maintains an internal investment pool that invests in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund. MassDOT's participation in this pool is presented as cash and short-term investments (both restricted and unrestricted) in the accompanying financial statements.

The securities owned by the Cash Fund are valued at amortized cost which approximates market value. Interest earned on the investment pool is allocated to MassDOT on a pro rata basis.

Restricted cash and short-term investments also includes certain amounts restricted for use by bond indentures and other external requirements. Such amounts are held by the Treasurer in the MMDT Cash Fund as well as amounts held by bond and other trustees.

**(e) *Investments***

Investment securities are recorded at fair value, based on quoted market price.

The Treasurer of the Commonwealth holds certain investments on behalf of MassDOT. The amount held by the Treasurer appears as "Investments" in the accompanying financial statements. Interest earned on specific MassDOT investments is allocated to MassDOT. As of June 30, 2010, the Treasurer held no investments on behalf of MassDOT.

Restricted investments include amounts restricted for use by bond indentures and other external requirements and include certain investments held by bond and other trustees.

For purposes of the statements of cash flows, unrestricted investments purchased with a maturity date of three months or less are considered cash equivalents.

**(f) *Accounts Receivable***

Reimbursements due to MassDOT from the Commonwealth for state and federally funded construction project expenditures are reported as "Due from Commonwealth" in the financial statements. Amounts due from the Commonwealth are considered 100% collectible.

**(g) *Capital Assets***

Capital assets include land, construction in progress, buildings, equipment, vehicles, software and infrastructure (e.g., roads, bridges, ramps, and other similar items). Such assets are reported in the applicable governmental or business-type activity columns of the government-wide financial statements and proprietary funds and are recorded at historical cost or estimated historical cost if

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

purchased or constructed. Donated capital assets are recorded at fair value at the date of donation. Assets transferred to MassDOT from other governments (subsequent to its formation) are recorded at net carrying value (historical cost less accumulated depreciation) at the date of transfer.

Equipment, vehicles, computer equipment and software purchases that equal or exceed \$50 are capitalized. Buildings and infrastructure projects with a cost that equals or exceeds \$100 are capitalized. All land and nondepreciable land improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

| <b>Type of asset</b>                            | <b>Estimated<br/>useful life<br/>(in years)</b> |
|---|---|
| Buildings                                       | 40  |
| Infrastructure – roads, bridges,<br>and tunnels | 40  |
| Equipment                                       | 10  |
| Computer hardware and software                  | 3 to 7  |
| Vehicles  | 5   |

In the government-wide financial statements, depreciation expense is charged to the function to which the capital assets relate.

Construction in process includes all associated cumulative costs of a constructed capital asset. Construction in process is relieved and a depreciable capital asset is reported at the point at which an asset is placed in service for its intended use. Interest incurred during the construction phase of capital assets is not capitalized as the debt related to the construction appears on the books of the Commonwealth.

**(h) Other Assets**

Other assets in the government-wide financial statements consist principally of prepaid expenses and the unamortized portion of bond issue costs.

**(i) Deferred Revenue**

Deferred revenue in the governmental fund financial statements represents monies received in advance of providing goods or services or receivables accrued that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Certain deferred revenue related to receivables not considered available is recognized as revenue in the conversion to the government-wide financial statements which follow the accrual basis of accounting.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(j) Long-Term Debt**

In the government-wide and proprietary funds, long-term debt is reported as liabilities in the statements of net assets. Bond premiums, discounts and issue costs are deferred and amortized over the life of the bonds using the straight-line method. Deferred gains and losses related to refunding transactions are amortized using the straight-line method over the shorter of the maturity of the new debt or the defeased debt.

In the governmental funds, the face amount of long-term debt is reported as other financing sources when the debt is issued. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as planning and programming expenditures.

**(k) Fund Balances**

Fund balances for governmental funds are classified as either reserved or unreserved. Reserved fund balances reflect either (1) assets which, by their nature, are not available for appropriation; or (2) funds legally separated for a specific use.

**(l) Compensated Absences**

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rate of pay.

In the government-wide and proprietary fund statements of net assets, compensated absences are recorded as an expense and liability as the benefits accrue.

For the governmental fund financial statements, accumulated vacation and sick leave are reported as expenditures and fund liabilities when they become due and payable upon retirement, termination, or death.

**(m) Implementation and Future Implementation of GASB Pronouncements**

During the period ended June 30, 2010, MassDOT implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The implementation of this statement did not have a material impact on the financial statements of MassDOT.

During the period ended June 30, 2010, MassDOT also implemented GASB Statement No. 53 (GASBS 53), *Accounting and Financial Reporting for Derivative Investments*, which requires the fair value of derivative instruments be reported as assets or liabilities on the statement of net assets. Changes in the fair value of such instruments must be reported in the statement of activities or statement of revenues, expenses and changes in net assets (whichever applies), or as deferred inflows or outflows in the statement of net assets. The method of reporting the change in fair value is



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

dependent upon whether the derivative instrument qualifies for hedge accounting. See note 5. The net assets of MassDOT, at inception, reflected the impact of the adoption of GASBS 53.

In fiscal year 2011, MassDOT will implement GASB Statement No. 54 (GASBS 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The implementation of GASBS 54 will result in the reorganization of the fund balance section of the governmental fund financial statements into the following categories: (1) nonspendable; (2) restricted; (3) committed; (4) assigned; and (5) unassigned. Fund balances will be allocated to these categories based on the level of constraints that direct how resources can be spent.

**(n) Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**(2) Net Assets/Fund Balance**

MassDOT was created and commenced operations on November 1, 2009. On that date, in addition to the assets, liabilities and equity of the Massachusetts Turnpike Authority, the assets, liabilities and equity of various Commonwealth funds and programs became assets, liabilities and equity of MassDOT. The activities of the Commonwealth that became part of MassDOT on November 1 included:

1. The assets and certain liabilities of the former Highway Department, Registry of Motor Vehicles and Aeronautic Commission
2. Certain assets of the Department of Conservation and Recreation (DCR)
3. The Owner Controlled Insurance Program (OCIP)

The assets of the former Massachusetts Turnpike Authority's Other Post-Employment Benefits Trust also became part of MassDOT at the date of inception.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The following details the net assets/fund balance of MassDOT's primary government funds and activities at November 1, 2009:

|   | <u>Governmental<br/>activities</u> | <u>MTTF<br/>(General<br/>Fund)</u> | <u>Highway<br/>capital<br/>projects</u> | <u>Other<br/>governmental<br/>funds</u> | <u>Internal<br/>Service<br/>Fund</u> | <u>OPEB<br/>trust</u> |
|---|------------------------------------|------------------------------------|---|---|--------------------------------------|-----------------------|
| Massachusetts Turnpike Authority – operations | \$ 4,391,869                       | 581,311                            | —                                       | —                                       | —                                    | —                     |
| Massachusetts Turnpike Authority – OPEB trust | —                                  | —                                  | —                                       | —                                       | —                                    | 52,704                |
| Former departments of the Commonwealth        | 15,879,113                         | 1,014                              | 110,348                                 | 354,112                                 | —                                    | —                     |
| Certain assets of the DCR of the Commonwealth | 85,635                             | —                                  | —                                       | —                                       | —                                    | —                     |
| Commonwealth OCIP program                     | <u>20,836</u>                      | <u>—</u>                           | <u>—</u>                                | <u>—</u>                                | <u>20,836</u>                        | <u>—</u>              |
| Beginning net assets/fund balance \$          | <u>20,377,453</u>                  | <u>582,325</u>                     | <u>110,348</u>                          | <u>354,112</u>                          | <u>20,836</u>                        | <u>52,704</u>         |

At June 30, 2010, MassDOT had the following fund balance reserves in its governmental funds:

|  |                   |
|--|-------------------|
| Debt service                                     | \$ 247,859        |
| Toll operations and capital reinvestment         | 170,765           |
| Greenway maintenance and preservation            | 33,092            |
| State-wide road and bridge program               | 72,803            |
| Central Artery repairs and maintenance           | 416,980           |
| Other governmental funds                         | <u>1,320</u>      |
| Total reserved fund balance – governmental funds | <u>\$ 942,819</u> |

**(3) Deposits and Investments**

The Treasurer of the Commonwealth maintains an internal investment pool, in which MassDOT participates, that invests solely in the Massachusetts Municipal Depository Trust (MMDT) Cash Fund. Authorized investments for the MMDT Cash Fund include primarily U.S. government and government agency obligations, certificates of deposits, commercial paper, notes and repurchase agreements, all with maturities of one year or less. MassDOT's pro rata share of the internal investment pool is presented in the accompanying financial statements as:

|                                 |                   |
|---------------------------------|-------------------|
| Cash and short-term investments | \$ 115,919        |
| Restricted cash and investments | <u>753,733</u>    |
|                                 | <u>\$ 869,652</u> |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

MassDOT follows Chapter 32 of the Mass General Laws with regard to the investment practices of the OPEB Trust. Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec 23(3), the “Prudent Person” rule.

MassDOT investments consist of amounts invested by the Treasurer in the MMDT Cash Fund on behalf of MassDOT as well as investments held by the bond and other trustees in accordance with bond indentures and other external requirements.

For investments held by trustees, including investments held by the OPEB Trust, MassDOT has implemented investment policies which incorporate the investment protocols within the Trust Agreements.

In most cases, MassDOT has chosen to limit investments to U.S. Government Treasuries or agencies of the U.S. Government. U.S. Government Agency Obligations purchased may include, but not be limited to, debt issued by: the Student Loan Marketing Association, the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association.

**(a) Custodial Credit Risk**

At June 30, 2010, all of MassDOT’s bank balances were insured and not exposed to custodial credit risk. For deposits held by MMDT Cash Fund, MassDOT had minimal exposure to custodial credit risk.

MassDOT had no custodial credit risk for investments as all investments were either insured or held in MassDOT’s name.

**(b) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a debt investment. These investments include certain short – term cash equivalents, various long-term items and restricted assets by maturity in years. MassDOT does not have a formal policy related to interest rate risk.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

MassDOT's investments including investments in the OPEB Trust at June 30, 2010 are presented below by investment type and maturity.

| Investment type           | Fair value   | Investment maturities (in years) |         |        |                 |
|---------------------------|--------------|----------------------------------|---------|--------|-----------------|
|                           |              | Less than<br>1 year              | 1 – 5   | 6 – 10 | More<br>than 10 |
| U.S. Treasuries           | \$ 6,922     | 433                              | 5,132   | 665    | 692             |
| U.S. Agencies             | 140,657      | 22,610                           | 118,047 | —      | —               |
| Money market mutual funds | 46,938       | 46,938                           | —       | —      | —               |
| Commercial paper          | 72,603       | 72,603                           | —       | —      | —               |
| Other mutual funds        | 79,150       | 79,150                           | —       | —      | —               |
| Repurchase agreements     | 1,183        | 1,183                            | —       | —      | —               |
| Fixed income securities   | 10,289       | 7,336                            | 969     | 1,475  | 509             |
| MMDT                      | 869,652      | 869,652                          | —       | —      | —               |
|                           | 1,227,394    | \$ 1,099,905                     | 124,148 | 2,140  | 1,201           |
| Other investments:        |              |                                  |         |        |                 |
| Equity securities         | 25,347       |                                  |         |        |                 |
| Total investments         | \$ 1,252,741 |                                  |         |        |                 |

(c) **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table presents the credit quality ratings of the primary government's fixed income investments at June 30, 2010:

| Investment type           | Fair value   | Quality ratings |         |        |           |        |         |
|---------------------------|--------------|-----------------|---------|--------|-----------|--------|---------|
|                           |              | AAA             | AA1-AA3 | A1-A3  | BAA1-BAA3 | BA1-BD | Unrated |
| Money market mutual funds | \$ 46,938    | 42,562          | —       | —      | —         | —      | 4,376   |
| Commercial paper          | 72,603       | —               | —       | 72,603 | —         | —      | —       |
| Other mutual funds        | 79,150       | 79,150          | —       | —      | —         | —      | —       |
| Repurchase agreements     | 1,183        | —               | —       | —      | —         | —      | 1,183   |
| Fixed income securities   | 10,289       | 1,783           | 1,136   | 3,121  | 3,085     | 202    | 962     |
| MMDT                      | 869,652      | —               | —       | —      | —         | —      | 869,652 |
|                           | \$ 1,079,815 | 123,495         | 1,136   | 75,724 | 3,085     | 202    | 876,173 |

Although the MMDT Cash Fund is not rated, credit ratings associated with the investments of the Cash Fund were either P1 (approximately 97%) or P2 (approximately 3%).

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(d) Concentration of Credit Risk – Investments**

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investment in a single issuer. The investment in the Federal Home Loan Bank (\$87,918) is the only issuer where securities at year end exceeded 5% of the total investments of the primary government.

The MMDT Cash Fund has no concentration of credit risk exposure.

**(e) Restricted Cash and Investments by Fund**

The following summarizes restricted cash and investments as of June 30, 2010 by the various funds and accounts established by MassDOT for debt covenant requirements and other purposes:

Held by Treasurer of the Commonwealth:

|  |            |
|--|------------|
| General Fund – Toll related accounts as restricted by bond covenants | \$ 230,231 |
| General Fund – Rose Kennedy Greenway                                 | 33,092     |
| Major Capital Projects – Statewide Road and Bridge Program           | 73,652     |
| Other Governmental Funds – Central Artery Repairs and Maintenance    | 417,939    |

Held by Bond Trustee:

|  |         |
|--|---------|
| General Fund – Toll related accounts as restricted by bond covenants | 254,018 |
|--|---------|

Held by OCIP Trustee:

|  |        |
|--|--------|
| Internal Service Fund – Workers' compensation self-insurance | 72,606 |
|--|--------|

|       |                            |
|-------|----------------------------|
| Total | \$ <u><u>1,081,538</u></u> |
|-------|----------------------------|

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(4) Capital Assets**

Capital assets of the governmental activities consisted of the following at June 30, 2010:

|   | <b>Beginning<br/>balance</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>balance</b> |
|---|------------------------------|------------------|------------------|---------------------------|
| Capital assets, not being depreciated:          |                              |                  |                  |                           |
| Land  | \$ 758,740                   | 8,297            | 2,549            | 764,488                   |
| Construction in progress                        | 1,909,796                    | 189,503          | 33,982           | 2,065,317                 |
| Total capital assets, not<br>being depreciated  | 2,668,536                    | 197,800          | 36,531           | 2,829,805                 |
| Capital assets, being depreciated:              |                              |                  |                  |                           |
| Infrastructure                                  | 27,720,180                   | 108,171          | —                | 27,828,351                |
| Buildings                                       | 113,455                      | 5,058            | —                | 118,513                   |
| Equipment                                       | 106,728                      | 602              | —                | 107,330                   |
| Vehicles  | 71,331                       | 2,868            | 2,025            | 72,174                    |
| Software  | 5,502                        | 766              | —                | 6,268                     |
| Total capital assets,<br>being depreciated      | 28,017,196                   | 117,465          | 2,025            | 28,132,636                |
| Less accumulated depreciation for:              |                              |                  |                  |                           |
| Infrastructure                                  | 8,462,038                    | 428,865          | —                | 8,890,903                 |
| Buildings                                       | 53,722                       | 1,993            | —                | 55,715                    |
| Equipment                                       | 86,541                       | 4,146            | —                | 90,687                    |
| Vehicles  | 56,539                       | 2,652            | 2,025            | 57,166                    |
| Software  | 5,384                        | 136              | —                | 5,520                     |
| Total accumulated<br>depreciation               | 8,664,224                    | 437,792          | 2,025            | 9,099,991                 |
| Total capital assets,<br>being depreciated, net | 19,352,972                   | (320,327)        | —                | 19,032,645                |
| Capital assets, net                             | \$ 22,021,508                | (122,527)        | 36,531           | 21,862,450                |

Depreciation expense was charged to functions/programs of the governmental activities as follows:

|                            |            |
|----------------------------|------------|
| Highway                    | \$ 437,531 |
| Mass transit               | 242        |
| Aeronautics                | 16         |
| Registry of motor vehicles | 3          |
|                            | <u>3</u>   |
|                            | \$ 437,792 |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(5) Bonds, Notes and Other Long-Term Liabilities**

Long-term debt and other long-term liabilities of the governmental activities consisted of the following at June 30, 2010:

|  | <u>Beginning<br/>balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending<br/>balance</u> | <u>Due within<br/>one year</u> |
|--|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| Senior revenue bonds:  |                              |                  |                   |                           |                                |
| Metropolitan Highway System:   |                              |                  |                   |                           |                                |
| 1997 Series A, 5.05% to 5.65%, issued September 24, 1997, due 2010 to 2037**                                     | \$ 1,183,047                 | —                | 1,141,040         | 42,007                    | —                              |
| Metropolitan Highway System:   |                              |                  |                   |                           |                                |
| 2010 Refunding, Series A, variable rate issued May 27, 2010, due 2035 to 2037                                    | —                            | 207,665          | —                 | 207,665                   | —                              |
| Borrowings related to associated interest rate swap  | 3,641                        | —                | 67                | 3,574                     | 71                             |
| Metropolitan Highway System:   |                              |                  |                   |                           |                                |
| 2010 Refunding, Series B, 2.00% to 5.00%, issued May 27, 2010, due 2011 to 2037                                  | —                            | 882,310          | —                 | 882,310                   | 420                            |
| 1997 Series C, Capital Appreciation Bonds (CABs) 5.40% to 5.55%, issued September 24, 1997, due 2016 to 2023     | 89,136                       | —                | —                 | 89,136                    | —                              |
| Western Turnpike:  |                              |                  |                   |                           |                                |
| 1997 Series A, 5.55%, issued September 24, 1997 due 2017 (mandatory sinking fund requirements from 1999 to 2017) | 145,185                      | —                | 17,820            | 127,365                   | 18,365                         |
| Total senior revenue bonds   | <u>1,421,009</u>             | <u>1,089,975</u> | <u>1,158,927</u>  | <u>1,352,057</u>          | <u>18,856</u>                  |
| Subordinated revenue bonds:  |                              |                  |                   |                           |                                |
| Metropolitan Highway System:   |                              |                  |                   |                           |                                |
| 1999 Series A, 3.90% to 5.26%, issued March 11, 1999 due 2004 to 2039  | 732,920                      | —                | 732,920           | —                         | —                              |
| 1997 Series B, 5.00% to 5.57%, issued September 24, 1997 due 2010 to 2037  | 194,680                      | —                | 194,680           | —                         | —                              |
| Metropolitan Highway System:   |                              |                  |                   |                           |                                |
| 2010 Refunding, Series A, variable rate issued April 14, 2010, due 2024 to 2039                                  | —                            | 592,335          | —                 | 592,335                   | —                              |
| Borrowings related to associated interest rate swap  | 13,813                       | —                | 400               | 13,413                    | 420                            |
| Metropolitan Highway System:   |                              |                  |                   |                           |                                |
| 2010 Refunding, Series B, 3.25% to 5.00%, issued April 14, 2010, due 2019 to 2035                                | —                            | 261,220          | —                 | 261,220                   | —                              |
| Total subordinated revenue bonds   | <u>941,413</u>               | <u>853,555</u>   | <u>928,000</u>    | <u>866,968</u>            | <u>420</u>                     |
| Total  | <u>2,362,422</u>             | <u>1,943,530</u> | <u>2,086,927</u>  | <u>2,219,025</u>          | <u>19,276</u>                  |
| Less unamortized amounts:  |                              |                  |                   |                           |                                |
| Bond discounts   | (79,496)                     | (7,715)          | (76,870)          | (10,341)                  | —                              |
| Deferred losses on refunding   | (64)                         | (75,611)         | (445)             | (75,230)                  | —                              |
| Plus premiums  | —                            | 62,454           | 297               | 62,157                    | —                              |
| Total bonds payables   | <u>2,282,862</u>             | <u>1,922,658</u> | <u>2,009,909</u>  | <u>2,195,611</u>          | <u>19,276</u>                  |
| Other long-term liabilities:   |                              |                  |                   |                           |                                |
| Workers' compensation  | 22,330                       | 7,185            | 4,440             | 25,075                    | 6,660                          |
| Judgments and claims   | 31,600                       | 58,854           | 7,254             | 83,200                    | 11,400                         |
| Compensated absences, net  | 39,623                       | 605              | —                 | 40,228                    | 26,434                         |
| Total other long-term obligations  | <u>93,553</u>                | <u>66,644</u>    | <u>11,694</u>     | <u>148,503</u>            | <u>44,494</u>                  |
| Total long-term liabilities  | <u>\$ 2,376,415</u>          | <u>1,989,302</u> | <u>2,021,603</u>  | <u>2,344,114</u>          | <u>63,770</u>                  |

\*\* \$42,007 of the \$1,183,047 of the 1997, Series A MHS revenue bonds are capital appreciation bonds.

Interest is payable semiannually on all debt, except on Capital Appreciation Bonds which is accrued over the lives of the Bonds and is payable upon maturity of the Bonds.

Revenue bonds are secured by a lien and pledge of cash and revenues derived from the Metropolitan Highway System and Western Turnpike. In addition, the Commonwealth has pledged \$100,000 per fiscal

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

year until June 30, 2039 to provide contractual assistance with repayment of the bonds. These contractual payments constitute dedicated payments from the Commonwealth that are deposited directly to the Subordinated Debt Service Fund. The amount of pledged revenue is approximately equal to the remaining principal and interest requirements of the outstanding Metropolitan Highway System and Western Turnpike bonds

Debt service requirements, excluding derivative borrowings, are as follows:

|                      | <u>Principal</u>    | <u>Interest</u>  | <u>Total</u>     |
|----------------------|---------------------|------------------|------------------|
| Year ending June 30: |                     |                  |                  |
| 2011                 | \$ 18,785           | 43,620           | 62,405           |
| 2012                 | 51,285              | 64,205           | 115,490          |
| 2013                 | 53,835              | 61,910           | 115,745          |
| 2014                 | 56,045              | 59,215           | 115,260          |
| 2015                 | 77,780              | 56,336           | 134,116          |
| 2016 – 2020          | 241,653             | 359,758          | 601,411          |
| 2021 – 2025          | 277,067             | 331,551          | 608,618          |
| 2026 – 2030          | 373,768             | 254,874          | 628,642          |
| 2031 – 2035          | 516,765             | 69,511           | 586,276          |
| 2036 – 2039          | 535,055             | 3,650            | 538,705          |
| Total                | \$ <u>2,202,038</u> | <u>1,304,630</u> | <u>3,506,668</u> |

As rates change, interest payments on the 2010 Bonds will vary.

Outstanding bonds that are redeemable before their scheduled due dates are as follows at June 30, 2010:

| <u>Description</u>                | <u>Redemption date</u> | <u>Redemption price</u> | <u>Principal amount outstanding</u> |
|-----------------------------------|------------------------|-------------------------|-------------------------------------|
| Metropolitan Highway System:      |                        |                         |                                     |
| 2010 Series A – Subordinated Debt | 2024 to 2039           | 100%                    | \$ 592,335                          |
| 2010 Series B – Subordinated Debt | 2031 to 2035           | 100                     | 261,220                             |
| 2010 Series A – Senior Debt       | 2035 to 2037           | 100                     | 207,665                             |
| 2010 Series B – Senior Debt       | 2030 to 2037           | 100                     | 882,310                             |
| Western Turnpike:                 |                        |                         |                                     |
| 1997 Series A                     | 2008 to 2017           | 100%                    | \$ 127,365                          |



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

***Refunding Transactions***

**Current Refunding – April 14, 2010**

On April 14, 2010, MassDOT issued \$854,000 in revenue bonds to refund (current) \$918,000 of outstanding 1997 (Series B) and 1999 (Series A) Subordinated Bonds (issued by the former Massachusetts Turnpike Authority) with an average interest rate of 5.05%. \$592,000 of the refunding bonds are variable rate demand bonds that are reset weekly. The interest rate of the new bonds from the date of issuance through fiscal year-end ranged from 0.19% to 0.33%. \$261,000 of the refunding bonds bear interest at an average rate of 4.98%.

The net proceeds of \$868,000 (after payment of \$4,000 in underwriting fees, insurance, and other issuance costs, plus premium of \$18,000) plus an additional \$67,000 of 1997 and 1999 Subordinated Bonds sinking fund monies were used to retire the outstanding 1997 (Series B) and 1999 (Series A) Subordinated Bonds and the related accrued interest.

As a result of this refunding, MassDOT will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$13,000.

**Current Refunding – May 27, 2010**

On May 27, 2010, MassDOT issued \$1,090,000 in revenue bonds to refund (current) \$1,119,000 of outstanding 1997 (Series B) Senior Bonds (issued by the former Massachusetts Turnpike Authority) with an average interest rate of 5.02%. \$208,000 of the refunding bonds are variable rate demand bonds that are reset weekly. The interest rate of the new bonds from the date of issuance through fiscal year-end ranged from 0.22% to 0.28%. \$882,000 of the refunding bonds bear interest at an average rate of 4.93%.

The net proceeds of \$1,127,000 (after payment of \$7,000 in underwriting fees, insurance, and other issuance costs, plus premium of \$44,000) plus an additional \$18,000 of 1997 Senior Bonds sinking fund monies were used to retire the 1997 (Series B) Senior Bonds and related accrued interest.

As a result of this refunding, MassDOT will reduce its total gross debt service payments over the next 27 years by over \$160,000 and will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$41,000.

Although these two refunding transactions will generate an economic gain for MassDOT of approximately \$54,000, the transactions have resulted in MassDOT recording a deferred accounting loss of \$75,611.

***Demand Bonds***

Included in long-term debt is \$207,665 of Senior and \$592,335 of Subordinated variable rate demand bonds. The bonds were issued in May and April 2010, respectively, and the proceeds of the bonds were used to refund certain revenue bonds issued previously by the Massachusetts Turnpike Authority. The bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest. The ability of MassDOT, through its Trustee and remarketing agent, to purchase such bonds is

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

secured through letters of credit and standby bond purchase agreements with various nationally recognized financial institutions that expire beginning in April 2012.

***Prior Defeasances of Debt***

At June 30, 2010, the principal amounts outstanding on revenue bonds and notes that are considered defeased are as follows:

| <b>Description</b> | <b>Redemption<br/>date</b> | <b>Redemption<br/>price</b> | <b>Principal<br/>amount<br/>outstanding</b> |
|--------------------|----------------------------|-----------------------------|---|
| 1993 Series A Term | 2013 to 2023               | 100%                        | \$ 238,345                                  |

***Derivative Instruments***

**Interest Rate Swaps/Swaptions**

The former Massachusetts Turnpike Authority (the Turnpike) entered into swaptions, which upon exercise became interest rate swaps (hereinafter referred to as Swaps) to (1) lock in long-term fixed rate payments and (2) hedge changes in cash flows on variable-rate bonds due to interest rate risk. As of November 1, 2009 (MassDOT's inception), these Swaps were classified as investment derivatives, as they were not associated with a then existing asset or liability of MassDOT. During the period ended June 30, 2010, these Swaps became associated with and were determined to be effective hedges of the bonds issued by MassDOT to refund long-term debt previously issued by the Turnpike. Additionally, the Turnpike received premiums in connection with these Swaps upon issuance of the related swaptions. A portion of the premiums are considered borrowings and are valued separately from the Swaps. The balance of the borrowings at June 30, 2010 totals \$16,987 and is presented as part of bonds payable in the accompanying government-wide financial statements. The premiums were recognized in the opening equity balance of the MTF.

**Forward Delivery Agreement**

MassDOT's bond trustee has invested certain of the debt service funds it holds through a Forward Delivery Agreement (Agreement). The Agreement, administered by Wells Fargo Bank, N.A., provides MassDOT with a guaranteed rate of return on trustee deposits held for debt payments until such time as payments are due. These deposits are recorded on MassDOT's financial statements at the fair value of the underlying securities provided by Wells Fargo through the Agreement. The Agreement qualifies as an investment derivative instrument and is reported at its fair value of \$2,632 as of June 30, 2010. The Agreement is not rated.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The fair value balances and notional amounts of the derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the eight-months then ended as reported in the 2010 financial statements are as follows (debit (credit)):

|                          | Changes in fair value |                  | Fair value at June 30, 2010 |                     | Notional |
|--------------------------|-----------------------|------------------|-----------------------------|---------------------|----------|
|                          | Classification        | Amount           | Classification              | Amount              |          |
| Governmental activities: |                       |                  |                             |                     |          |
| Cash flow hedges:        |                       |                  |                             |                     |          |
| Pay-fixed interest       |                       |                  |                             |                     |          |
| rate swaps (a)           | Deferred outflow      | \$ 80,613        | Derivative liability        | \$ (302,829)        | 800,000  |
| Investment derivatives:  |                       |                  |                             |                     |          |
| Pay-fixed interest       |                       |                  |                             |                     |          |
| rate swap                | Investment revenue    | 2,710            | Derivative liability        | (2,710)             | —        |
| Pay-variable interest    |                       |                  |                             |                     |          |
| rate basis swap          | Investment revenue    | <u>2,154</u>     | Derivative liability        | <u>(11,066)</u>     | 100,000  |
| Subtotal                 |                       | 85,477           |                             | (316,605)           |          |
| Forward delivery         |                       |                  |                             |                     |          |
| agreement                | Investment revenue    | <u>(1,128)</u>   | Derivative asset            | <u>2,632</u>        | —        |
|                          |                       | <u>\$ 84,349</u> |                             | <u>\$ (313,973)</u> |          |

- (a) These derivative instruments were considered investment derivatives at the inception of MassDOT but were determined to be effective hedges at the date of the MHS subordinated and senior bond refundings in April and May, 2010, respectively. The change in fair value of these investment derivatives from November 1, 2009 to the dates of refundings was \$(27,562). This amount was recorded as a charge to investment revenue.

The fair values of the interest rate swaps and the Forward Delivery Agreement were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the derivative, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the derivatives.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The following table displays the terms of MassDOT's derivative instruments outstanding at June 30, 2010:

| Derivative item         | Type                                  | Objective   | Effective date | Notional amount | Term. date | Payable swap rate    | Receivable swap rate                | Premiums received | Fair value at June 30, 2010 |
|-------------------------|---------------------------------------|---|----------------|-----------------|------------|----------------------|-------------------------------------|-------------------|-----------------------------|
| Cash flow hedges:       |                                       |   |                |                 |            |                      |                                     |                   |                             |
| 1                       | Pay-fixed interest rate swap          | Hedge interest rate risk from the 2010 senior debt (Series A-1 and A-2)   | 7/1/2008       | \$ 207,665      | 1/1/2037   | 4.750%               | 68% of 1 month LIBOR (0.18433%) (a) | \$ 10,375         | (81,153)                    |
| 2                       | Pay-fixed interest rate swap          | Hedge interest rate risk from the 2010 sub. debt (Series A-2)             | 1/1/2008       | 83,100          | 1/1/2037   | 4.875                | 68% of 1 month LIBOR                | 4,391             | (30,960)                    |
| 3                       | Pay-fixed interest rate swap          | Hedge interest rate risk from the 2010 sub. debt (Series A-1)             | 1/1/2008       | 43,625          | 1/1/2029   | 5.000                | 68% of 1 month LIBOR                | 2,312             | (13,856)                    |
| 4                       | Pay-fixed interest rate swap          | Hedge interest rate risk from the 2010 sub. debt (Series A-3 through A-6) | 1/1/2009       | 371,380         | 1/1/2039   | 4.750                | 68% of 1 month LIBOR                | 17,063            | (146,419)                   |
| 5                       | Pay-fixed interest rate swap          | Hedge interest rate risk from the 2010 sub. debt (Series A-7)             | 1/1/2009       | 94,230          | 1/1/2029   | 5.000                | 68% of 1 month LIBOR                | 4,577             | (30,441)                    |
| Investment derivatives: |                                       |   |                |                 |            |                      |                                     |                   |                             |
| 6                       | Pay-fixed interest rate swap          |   | 1/1/2009       | —               | 1/1/2039   | 4.750                | 68% of 1 month LIBOR                | —                 | (2,710)                     |
| 7                       | Pay-variable interest rate basis swap |   | 10/1/2002      | 100,000         | 7/1/2029   | 67% of 3 month LIBOR | SIFMA (0.25%) (b)                   | 5,350             | (11,066)                    |
|                         |                                       | Subtotal  |                |                 |            |                      |                                     |                   | (316,605)                   |
| 8                       | Forward delivery agreement            |   | —              | —               | 1/1/2029   | —                    | Fixed 5.96%                         | —                 | 2,632                       |
|                         |                                       | Total   |                |                 |            |                      |                                     |                   | <u>\$ (313,973)</u>         |
| (a)                     | Rates as of June 30, 2010.            |   |                |                 |            |                      |                                     |                   |                             |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**Swap Payments and Related Debt**

Debt service requirements of the 2010 Subordinated Debt Series A-1 through A-7 and 2010 Senior Debt Series A-1 and A-2 (2010 Bonds) and net swap payments for the cash flow hedge swaps, applying the fixed rates (4.75% – 5.00%) of the swaps and assuming 68% of 1-month LIBOR rate (0.18433%) and the variable rates (0.19% – 0.22%) on the 2010 Bonds as of June 30, 2010 remain the same through the term of the swap, are as follows:

|             | <b>2010 Bonds<br/>principal</b> | <b>2010 Bonds<br/>interest</b> | <b>Interest rate<br/>swap, net</b> | <b>Total</b>     |
|-------------|---------------------------------|--------------------------------|------------------------------------|------------------|
| 2011        | \$ —                            | 1,429                          | 36,974                             | 38,403           |
| 2012        | —                               | 1,692                          | 36,974                             | 38,666           |
| 2013        | —                               | 1,691                          | 36,974                             | 38,665           |
| 2014        | —                               | 1,691                          | 36,974                             | 38,665           |
| 2015        | —                               | 1,691                          | 36,974                             | 38,665           |
| 2016 – 2020 | —                               | 8,459                          | 184,869                            | 193,328          |
| 2021 – 2025 | 29,095                          | 8,445                          | 184,562                            | 222,102          |
| 2026 – 2030 | 132,305                         | 7,601                          | 165,206                            | 305,112          |
| 2031 – 2035 | 116,155                         | 6,356                          | 145,148                            | 267,659          |
| 2036 – 2039 | 522,445                         | 2,406                          | 66,780                             | 591,631          |
| Totals      | \$ <u>800,000</u>               | <u>41,461</u>                  | <u>931,435</u>                     | <u>1,772,896</u> |

As rates change, interest payments on the 2010 Bonds and net swap payments will vary.

**Risk Disclosures**

*Credit Risk* – MassDOT is not exposed to credit risk on its hedging derivatives as none of these instruments are in an asset position. However, if interest rates and volatilities change and the fair values of the swaps were to become positive, MassDOT would be exposed to credit risk in the amount of the positive fair values. To mitigate credit risk, MassDOT's counterparties are all rated in the A category or higher by the three rating agencies.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The following represents the credit ratings of the swap counterparties at June 30, 2010:

| <b>Derivative<br/>swap item</b> | <b>Counterparty<br/>credit rating<br/>(Moody's, S&amp;P<br/>and Fitch)</b> |
|---------------------------------|--|
| Derivative 1                    | Aa3, A+, A+  |
| Derivative 2                    | Aa3, A+, A+  |
| Derivative 3                    | Aa3, A+, A+  |
| Derivative 4                    | Aa3, A+, A+  |
| Derivative 5                    | Aa3, A+, A+  |
| Derivative 6                    | Aa3, A+, A+  |
| Derivative 7                    | Aa1, AA-, AA-  |

*Basis Risk* – MassDOT is exposed to basis risk related to its pay-variable receive-variable interest rate basis swap because the pay-variable rate is based on 67% of 3 month LIBOR and the receive-variable rate is based on SIFMA. MassDOT is also exposed to basis risk from cash flow hedges because the floating rate being hedged on the bonds is determined on a basis different from the floating rate on the swaps of 68% of 1 month LIBOR.

*Tax Risk* – If maximum tax rates were to decline, it is possible that the 68% of one month LIBOR the MassDOT receives under the 2001 UBS swap would be less than the amount needed to pay its variable rate bonds. The MassDOT and its financial advisor take this risk into consideration when analyzing the sufficiency of the hedge reserve fund balance.

*Termination Risk* – MassDOT or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If any of the swaps are terminated, the related variable rate bonds would no longer be hedged. Finally, if at the time of termination the swap has a negative fair value, MassDOT would be liable for a payment equal to the swaps' fair value.

**(6) Pledged Revenues**

MassDOT has pledged toll and certain related revenues, generated from the Metropolitan Highway System (MHS) and Western Turnpike (WT), to repay \$2,200,000 in revenue bonds after deducting the amount necessary to pay all operating and maintenance costs, capital reinvestment and the maintenance of certain debt service reserve funds as required by the applicable bond covenants. The bonds were originally issued to provide financing for construction related to the MHS and WT. Certain revenue bonds associated with the original issuance were refunded (current) during April and May of 2010, for which the pledge remains. The bonds are payable through 2039 from the pledged revenues and a \$100,000 annual contract assistance payment from the Commonwealth. Annual principal and interest payments (including net swap payments) on the bonds, net of the Commonwealth's \$100,000 annual contract assistance payment, are expected to require approximately 25% of pledged revenues. The total principal and interest (including net swap payments) remaining to be paid on the bonds is \$4,400,000. Principal and interest (including net swap

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

payments) paid and pledged revenue received for the eight month period ended June 30, 2010 were \$124,800 and \$227,000, respectively.

**(7) Employee Benefit Plans**

**(a) Pension Plan**

At the inception of MassDOT, the retirees and employees of the former Massachusetts Turnpike Authority became members of the Massachusetts State Employees' Retirement System (SERS). Additionally, the Transportation Reform legislation required that all assets and liabilities of the Massachusetts Turnpike Authority Retirement System be transferred to SERS.

*Plan Description.* MassDOT participates in the SERS, a defined benefit pension plan administered by the Massachusetts State Retirement System. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The SERS does not issue a publicly available financial report but is included in the Commonwealth's financial statements.

*Funding Policy.* Plan members are required to contribute 5% to 14% of their annual covered salary, depending upon the date of hire. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 6.16%. The contribution requirements of plan members and the Commonwealth are established and may be amended by the SERS Board of Trustees. MassDOT's reimbursement to the Commonwealth for the period ending June 30, 2010 was \$9,728, which equaled the required contribution.

**(b) Other Postemployment Benefits (OPEB)**

At the inception of MassDOT, the retirees and employees of the former Massachusetts Turnpike Authority became eligible to participate in the Commonwealth's OPEB plan.

*Plan Description.* MassDOT participates in the Commonwealth's OPEB plan, an agent multiple-employer OPEB plan administered by Commonwealth's Group Insurance Commission (GIC) and governed by the Trustees of the State Retiree Benefits Trust Fund. The Commonwealth's OPEB plan provides retiree health benefits to plan members and beneficiaries. The Commonwealth's OPEB plan does not issue a publicly available financial report but is included in the Commonwealth's financial statements.

*Funding Policy.* Plan members are required to contribute 0% to 25% of the premium cost, depending on the date of hire and whether the participant is active, retiree or survivor status. MassDOT is required to reimburse the Commonwealth at their contractual fringe rate of 7.11% based on current payroll. The contribution requirements of plan members are set in General Laws. MassDOT's reimbursement to the Commonwealth for the period ending June 30, 2010 was \$1,752, which equaled the required contribution.

**(c) OPEB Trust Fund**

At the inception of MassDOT, the OPEB Trust Fund, an irrevocable trust fund established to fund the OPEB liability of the then current and former retirees and employees of the Massachusetts

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

Turnpike Authority, was transferred to MassDOT who has the fiduciary responsibility for the assets of the Trust. However, legislation required that the OPEB liability for these same individuals become an obligation of the Commonwealth. For fiscal 2010, the Commonwealth has made benefit payments related to the retirees of the former Massachusetts Turnpike Authority but has not been reimbursed for those payments by either MassDOT or the Trust. As of January 10, 2011, it has not been determined whether or how the assets of the Trust can be moved to the Commonwealth and, as such, the OPEB Trust has been presented as a fiduciary fund of MassDOT.

**(8) Leases**

**(a) Commitments**

MassDOT has commitments under various operating leases. Total lease expense for the eight-month period ending June 30, 2010 was \$9,500. The following is a summary of the future minimum lease payments for operating lease obligations. Capital lease obligations are not material to MassDOT's financial statements.

|             | <u>Amount</u>           |
|-------------|-------------------------|
| Years:      |                         |
| 2011        | \$ 9,675                |
| 2012        | 8,683                   |
| 2013        | 4,940                   |
| 2014        | 3,524                   |
| 2015        | 3,339                   |
| 2016 – 2020 | <u>5,735</u>            |
| Total       | \$ <u><u>35,896</u></u> |

**(b) Rental Income**

MassDOT leases property and air rights to others. For the eight-month period ended June 30, 2010, MassDOT earned \$22,235 in rental income. The following is a schedule by years of minimum future rental income on noncancelable operating leases as of June 30, 2010:

|            | <u>Amount</u>            |
|------------|--------------------------|
| Years:     |                          |
| 2011       | \$ 35,083                |
| 2012       | 34,580                   |
| 2013       | 34,353                   |
| 2014       | 34,424                   |
| 2015       | 34,489                   |
| Thereafter | <u>614,852</u>           |
| Total      | \$ <u><u>787,781</u></u> |



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(9) Risk Management**

As part of its normal operations, MassDOT encounters the risk of accidental loss stemming from third party liability claims, property loss or damage, and job related injuries and illnesses. In managing these loss exposures, MassDOT applies a combination of risk management measures, including safety and loss prevention program, emergency planning, contractual risk transfer, self insurance (internal retention) and commercial insurance. Settled claims resulting from the risks discussed above did not exceed the amount of insurance coverage in force during the period ended June 30, 2010.

In connection with the self insurance and insurance programs, MassDOT retains part of the losses incurred and internally manages the self insured claims. The current MassDOT self insured retention includes (i) up to \$25,000 per occurrence for automobile liability and general liability, (ii) \$10,000 per loss for public official liability and privacy & network liability, (iii) \$250 per loss involving damage to buildings and their contents, and (iv) \$25,500 per bridge and tunnel loss. Insurance is purchased above self-insured amounts, subject to availability and reasonableness of cost. Liability insurance policies related to the former Massachusetts Turnpike Authority's exposures in prior periods (for incurred but not reported claims) have been assigned to MassDOT and remain in force.

**(a) Workers' Compensation**

MassDOT's fully self-insured workers' compensation program is administered by the Commonwealth of Massachusetts' Human Resources Division (HRD). HRD assumed responsibility for making fair and timely payments of indemnity and medical benefits to injured MassDOT employees, maintaining the claim and financial records and for negotiating appropriate settlements for all workers' compensation claims. This includes all legacy claims from the predecessor entities.

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported at year-end and are based on the historical cost of settling similar claims. MassDOT records such liabilities as other liabilities.

The estimated workers' compensation liability for occurrences through June 30, 2010 is approximately \$25,075. This amount is based on the results of a review performed by an independent actuarial firm retained by MassDOT, and it represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2010.

Changes in the workers' compensation claims liability for the period ended 2010 were as follows:

|                                      |    |               |
|--------------------------------------|----|---------------|
| Liability balance, November 1, 2009  | \$ | 22,330        |
| Provision to record estimated losses |    | 7,185         |
| Payments                             |    | (4,440)       |
| Liability balance, June 30, 2010     | \$ | <u>25,075</u> |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(b) Owner Controlled Insurance Program (OCIP)**

MassDOT has assumed responsibility for providing worker's compensation and general liability insurance for all eligible contractors and subcontractors working on the Central Artery/Tunnel Project (Project) by establishing an OCIP. A Trust, managed and administered by an independent third party (trustee), was established to protect a portion of the assets set aside with the insurance carrier to fund project liabilities.

The amounts in the Trust are restricted by its terms and cannot be used for other purposes. The insurance coverage provided by the Commonwealth ended on October 31, 2007, except for general liability coverage, which continues to apply to occurrences through November 1, 2010.

These insurance programs within the OCIP are structured as retrospectively rated insurance programs with retained loss limits of \$1,000 per claim, \$3,000 per occurrence for worker's compensation and \$2,000 per contractor, \$6,000 per occurrence for general liability coverage. MassDOT is responsible for loss costs up to these amounts.

At the request of the Commonwealth on March 10, 2008, the OCIP's insurance company committed to transfer project surplus funds that are not required to meet unpaid liabilities based on the June 30, 2007 actuarial projection. In fiscal year 2010, the final surplus withdrawal of \$14,200 was made and deposited into MassDOT's Transportation Infrastructure Fund (TIF), which is reported as a nonmajor governmental fund. Only \$4,250 of this amount was transferred between November 1, 2009 and June 30, 2010. As of June 30, 2010, MassDOT management believes that the balance remaining in the OCIP will be sufficient to fund unpaid liabilities. Any residual amount remaining at the end of the program will be transferred to the TIF.

The estimated Claims and Judgments liability for the OCIP for occurrences through June 30, 2010 is approximately \$33,200. This amount is based on the results of a review performed by an independent actuarial firm and it represents an estimate of liabilities incurred based on past experience for claims reported and not reported as of June 30, 2010.

Changes in the claims liability insurance reserves for the period ended 2010 were as follows:

|                                      |    |               |
|--------------------------------------|----|---------------|
| Liability balance, November 1, 2009  | \$ | 31,600        |
| Provision to record estimated losses |    | 8,854         |
| Payments                             |    | (7,254)       |
| Liability balance, June 30, 2010     | \$ | <u>33,200</u> |

**(10) Commitments**

MassDOT enters into construction contracts for roads, bridges, highways (including the Metropolitan Highway System and Western Turnpike) with various construction and engineering companies. Significant construction contracts outstanding at June 30, 2010 approximated \$2,500,000.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(11) Litigation**

MassDOT from time to time is engaged in various matters of routine litigation. These matters include personal injury and property damage claims for which MassDOT's liability is covered in whole or in part by insurance. MassDOT does not expect that these matters will require any amounts to be paid which in the aggregate would materially affect the financial statements.

MassDOT has agreed to take responsibility for all costs to complete the Central Artery/Tunnel Project that are in excess of the \$14,798,000 budget provided in the CA/T Finance Plan. At this time, MassDOT has identified no financial obligations pursuant to this agreement as it is anticipated that all costs to complete the CA/T Project, including costs related to additional exposures for claims, will be within the budgeted amount.

The most significant claim at this time involves Contract C11A1. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of \$130,000. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board (DRB) panel. As of June 30, 2010, MassDOT has accrued \$50,000 related to these claims.

The former Massachusetts Turnpike Authority had an investment agreement with Lehman Brothers Special Financing, Inc. (Lehman). In September 2008, Lehman filed for bankruptcy resulting in an event of default under this agreement. In connection with this default, MassDOT has filed a \$50,100 claim against Lehman to recover lost interest earnings and other investment costs. The actual payment realized may be significantly less than the initial claim amount. As of January 10, 2011, this claim is still pending and the outcome is not known.

**(12) Subsequent Events**

***Legislation***

Subsequent to year-end, legislation was passed that changed the funding for MassDOT. In fiscal 2010 MassDOT received the net receipts from the CTF after the Commonwealth deducted certain designated amounts. In fiscal 2011, MassDOT will receive an amount appropriated by the legislature. The amount appropriated for fiscal 2011 is \$195,126. The full impact of this change on MassDOT's operations has not yet been determined.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(13) The Massachusetts Bay Transportation Authority**

The Massachusetts Bay Transportation Authority (the MBTA or the Authority) was originally created in 1964 as a body politic and corporate and a political subdivision of the Commonwealth of Massachusetts (the Commonwealth).

The Enabling Act was amended in connection with the reform of the Commonwealth's transportation system. While the Authority remains a separate entity within the newly established Massachusetts Department of Transportation (MassDOT), effective November 1, 2009 the governing board of the Authority was abolished and replaced by a new five member board appointed by the Governor of the Commonwealth. The members of the board serve four-year terms and are eligible for reappointment. Of the appointees of the Governor, two shall be experts in the field of public or private transportation finance, two shall have practical experience in transportation planning and policy and one shall be a registered civil engineer with at least 10 years experience. One of the directors shall be appointed chairperson of the board provided however that said designee shall not be an employee of the Authority, MassDOT or any division thereof. The board has the power to appoint and employ a general manager and other officers. The advisory board, consisting of a representative from each of the cities and towns paying assessments, shall have certain specified powers, including the power to review the Authority's long-term capital program and annual operating budget.

In accordance with the requirements of Statement No. 14, *The Financial Reporting Entity*, of the Governmental Accounting Standards Board (GASB), the financial statements must present the Authority (the primary government) and its component units. Pursuant to this criterion, no component units were identified for inclusion in the accompanying financial statements. Additionally, the accompanying financial statements are incorporated into the financial statements of the MassDOT as the Authority is a component unit of the MassDOT.

**(14) MBTA – Summary of Significant Accounting Policies**

**(a) *Funding of Operation***

As part of the Commonwealth's Forward Funding Legislation (Chapter 127 of the Acts of 1999 of the Commonwealth or Enabling Act), the Commonwealth's prior enabling act, including funding mechanism was repealed and restated. Effective July 1, 2000, the statute provides the Authority a dedicated revenue stream consisting of the assessments on the communities in the Authority's service area (the Assessments) and certain Dedicated Sales Tax. Additionally, the Authority's service territory expanded from 78 to 175 cities and towns. The Transportation Reform Act also established a Commonwealth Transportation Fund (CTF) as a budgetary fund of the Commonwealth for transportation related purposes, which included \$160 million earmarked for the Authority. The Authority also funds operations through charges for providing transportation services.

**(b) *Financial Reporting***

The Authority applies U.S. generally accepted accounting principles (GAAP) as prescribed by GASB. The accompanying financial statements have been prepared using the economic resources

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

measurement focus and the accrual basis of accounting and reflect transactions on behalf of the Authority, the reporting entity. The Authority accounts for its operations as an enterprise fund. Operating revenues and expenses result from providing transportation services to member communities. All other revenues and expenses are reported as nonoperating revenues and expenses.

Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that Use Proprietary Fund Accounting*, the Authority has adopted the option to apply only those Financial Accounting Standards Board (FASB) statements and interpretations issued before November 30, 1989 that do not conflict with or contradict GASB pronouncements. After this date, only GASB pronouncements are followed.

(c) ***Capital Assets***

Capital assets over \$5 are stated at historical cost. These costs include the Authority's labor costs for employees working on capital projects, related fringe benefits, and an allocated share of general and administrative costs.

Depreciation is provided on the straight-line method over the asset's estimated useful life. The major categories of transportation property in service and their estimated useful lives are as follows at June 30, 2010 and 2009:

|                        | <b>Estimated<br/>useful life</b> |
|------------------------|----------------------------------|
| Ways and structures    | 10 – 60 years                    |
| Building and equipment | 3 – 25 years                     |

(d) ***Construction in Progress***

During 2010 and 2009, major construction projects aggregating \$364,514 and \$550,170, respectively, were completed and transferred to the appropriate transportation property accounts. Major projects included transit service extensions, right of way improvements, and purchases of new rolling stock and other equipment.

In prior years, the interest on debt used to finance major construction/procurement projects was capitalized by aggregating the interest expense incurred from the date of borrowing until completion of the project, then offsetting that amount with interest earned over the same period by the invested proceeds. Over the past several years, the Authority substantially completed certain major projects whose interest costs were previously capitalized. These projects included the Automated Fare Collection System, the Greenbush Commuter Rail Line extension, the Silverline Transitway and several vehicle fleet procurements. Accordingly, in fiscal years 2010 and 2009, the Authority had no material capitalized interest.

Additionally, the Authority, under various interagency agreements, performs construction work on behalf of other state agencies and states. Such construction costs are reimbursed upon completion of

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

the work. Costs incurred during 2010 and 2009 were \$151 and \$210, respectively. Amounts owed to the Authority for these costs and prior years costs as of June 30, 2010 and 2009 were \$412 and \$1,724, respectively, and are presented in accounts receivable in the accompanying statements of net assets.

**(e) Self-Insurance**

The Authority is fully self-insured for various risks including workers compensation, injuries and damages, and employee health claims. The Authority also self-insures a portion of casualty, liability claims, and property losses.

**(f) Capital Grants and Contributions**

The Authority receives capital grants from certain governmental agencies to be used for various purposes connected with the planning, modernization, and expansion of transportation facilities and equipment. Capital grants of the Authority are reported as revenue rather than contributed capital as required by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

**(g) Revenue Recognition**

The Authority realizes revenue from a variety of different sources including but not limited to dedicated sales tax revenue, dedicated assessment revenue, dedicated state appropriated funds, fare revenue and nonfare revenues such as real estate, parking and advertising revenues.

The dedicated sales tax revenue consists of the greater of the one percent of statewide sales tax, excluding the meals tax or a base revenue amount. The base revenue amount generally increases by the percentage change in inflation, as measured by the Boston Consumer Price Index (CPI), although not to exceed three percent annually. The Authority recognizes the greater of its share of the month's total actual receipts of sales tax revenue of the Commonwealth or the base revenue amount as nonoperating revenue on an accrual basis.

The dedicated assessment revenue consists of the obligation of 175 cities and towns in the Authority's expanded district to pay assessments for transportation services and benefits rendered. The Commonwealth deducts the assessments from each municipality's local aid payments; as such these payments are received from the Commonwealth. The Authority recognizes the assessments on an accrual basis as nonoperating revenue.

The Transportation Reform Act established the CTF, a budgetary fund of the Commonwealth for transportation related purposes, to receive essentially the same revenues previously deposited into the Highway Fund, including gasoline tax receipts, tunnel and highway tolls, and registry fee revenues. The CTF will also receive the sales tax receipts dedicated for transportation purposes, with a guaranteed annual payment of \$275 million. The Commonwealth appropriated \$160,000 from the CTF to the Authority for fiscal year 2010. This amount is subject to appropriation by the

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

Commonwealth in future years. The Authority recognizes the state appropriated funds on an accrual basis as nonoperating revenue.

The Authority generates significant revenue from the operation of its transportation system, including both fare revenue and nonfare revenue such as those derived from real estate, parking and advertising. Fare revenue is recorded on an accrual basis as operating revenue when fare media is purchased by riding customers through fare vending equipment and pass programs administered by the Authority. Real estate, parking and advertising revenue is recorded on an accrual basis as operating revenue upon reporting of independent contractors managing these revenue streams on behalf of the Authority.

**(h) *Statements of Cash Flows***

For purposes of the statements of cash flows, the Authority considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, which are reported as temporary cash investments.

**(i) *Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**(j) *Compensated Absences***

The Authority accrues for vested vacation pay when it is earned by employees. The amount of vested vacation pay accrued as of June 30, 2010 and 2009 was \$17,009 and \$17,356, respectively.

**(k) *Restricted Cash and Investment Accounts***

Certain cash and investments are segregated from operating cash due to certain internal or external restrictions. The following are included in restricted and other special accounts:

- Bond Construction Accounts – represent unexpended bond proceeds.
- Lease Deposits – represent cash held by trustees to be used to pay lease payments on the Authority's defeased capital leases.
- Bond Reserve Accounts – represent cash funds required to be maintained by trust agreements.
- Stabilization Accounts – represent funds held in accordance with statutory requirements to be used when annual revenues are projected to be less than annual expenses, or if the Authority has insufficient funds on hand to pay current expenses.
- Other Accounts – represent funds held in accordance with the Authority's trust agreements for capital maintenance, debt service, and other expenses.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(l) Lease Accounts**

Lease accounts represent amounts owed by third parties that are required to be used to pay lease payments under payment undertaking agreements on the Authority's capital leases (note 7).

**(m) Lease Deposits**

Lease deposits represent investments (Treasury strips and a collateralized investment agreement) that will be used to make scheduled equity payments on the Authority's capital leases.

**(n) Materials and Supplies**

Materials and supplies are stated at average cost and include items to support the Authority's operations.

**(o) Post Employment Benefits**

Post employment benefits, primarily healthcare, are recognized on an accrual basis. The accrual is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

**(p) Environmental Remediation Costs**

The Authority recognizes pollution remediation liabilities related to site investigation, planning and design, cleanup and site monitoring using the expected cash flow technique and in a range of possible estimated amounts. The remediation obligation estimates that appear in the report are subject to change over time due to price fluctuations, changes in technology, changes in potential responsible parties, statutes or regulations or other factors, which could result in the revision of these estimates.

**(q) Derivatives**

During 2010, the Authority implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires that derivative instruments be reported as assets or liabilities at fair value on the statement of net assets. Changes in fair value may be reported in the statement of revenue, expenses, and changes in net assets, or as deferred inflows or outflows in the statement of net assets, in accordance with Government Concept Statement No. 4, *Elements of Financial Statements*, depending upon whether the derivative instrument qualifies for hedge accounting. The fiscal 2009 financial statements have been restated to comply with GASB Statement No. 53.

**(r) Available Unrestricted Resources**

The Authority's policy is to utilize available unrestricted resources prior to restricted resources.



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

*(s) Reclassifications*

Certain prior year accounts have been reclassified to conform to the 2010 presentation.

**(15) MBTA – Deposits and Investments**

The Authority's investment policy is to only invest in securities named in the respective trust agreements.

The Authority is authorized by its board of directors to make deposits into checking and savings accounts and to invest in direct obligations of the U.S. Treasury, its agencies and instrumentalities, bankers' acceptances, investment agreements, municipal bonds, repurchase agreements secured by U.S. government and agency obligations, and certain other investments permitted under the trust indentures.

Obligations of any agency or instrumentality of the United States of America including, but not limited to the following, may be acceptable as collateral to secure certificates of deposit or other instruments:

- (A) Federal Home Loan Banks
- (B) Federal Land Banks
- (C) Federal Intermediate Credit Banks
- (D) Bank for Cooperatives
- (E) Federal National Mortgage Association
- (F) Federal Farm Credit Banks

The Authority may invest in prime commercial paper of corporate issuers with a minimum quality rating of P-1 by Moody's or A-1 by Standard and Poor's. These instruments can vary in maturity; however, no more than 10% of the investment funds shall be invested in the commercial paper of a single corporation.

Additionally, the Authority is authorized to invest in the Massachusetts Municipal Depository Trust (MMDT), a pooled money-market-like investment fund managed by the Commonwealth, established under General Laws, Chapter 29, Section 38A.

Marketable securities, which consist primarily of U.S. government instruments, are carried at fair value based upon quoted market prices. The Authority's investment in MMDT is carried at unit value, which approximates fair value. Other short-term money market-like investments, including forward delivery agreements and auction rate securities, are carried at cost that approximates fair value. Nonparticipating interest-earning contracts, including certificates of deposit and guaranteed investment contracts, are carried at cost.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

Deposits and investments consisted of the following amounts presented in the accompanying statements of net assets at June 30, 2010 and 2009:

|  | <u>2010</u>       | <u>2009</u>    |
|--|-------------------|----------------|
| Restricted:                                      |                   |                |
| Bond construction accounts                       | \$ 177,334        | 120,833        |
| Bond reserve, stabilization, and other accounts  | 485,836           | 434,982        |
| Lease deposits                                   | <u>101,034</u>    | <u>88,695</u>  |
| Subtotal   | 764,204           | 644,510        |
| Unrestricted cash and temporary cash investments | <u>112,985</u>    | <u>122,360</u> |
|  | <u>\$ 877,189</u> | <u>766,870</u> |

**(a) Custodial Credit Risk – Deposits**

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Authority's deposits may not be recovered. The deposits in the bank in excess of the insured amount and collateralized amount are uninsured and uncollateralized. The carrying amount of the Authority's deposits, all which were included in unrestricted cash and temporary cash investments, at June 30, 2010 and 2009 was \$26,999 and \$22,206, respectively. The bank balance at June 30, 2010 and 2009 was \$28,792 and \$24,419, respectively. Of this amount, \$3,201 and \$3,947, respectively, was exposed to custodial credit risk as uninsured and uncollateralized. These amounts reflect the Federal Deposit Insurance Corporation (FDIC) limit of \$250 at June 30, 2010 and \$250 at June 30, 2009.

**(b) Interest Rate Risk – Investments**

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Authority follows the guidelines in the Authority's trust agreements, and does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The Authority's fixed income investments at June 30, 2010 and 2009 are presented below. All investments are presented by investment type and maturity.

| <b>2010</b>                      |                   |   |               |               |                    |
|----------------------------------|-------------------|---|---------------|---------------|--------------------|
| <b>Investment type</b>           | <b>Fair value</b> | <b>Investment maturities (in years)</b> |               |               |                    |
|                                  |                   | <b>Less than<br/>1 year</b>             | <b>1 – 3</b>  | <b>4 – 8</b>  | <b>More than 8</b> |
| MMDT                             | \$ 95,593         | 95,593                                  | —             | —             | —                  |
| Money market funds               | 384,818           | 384,818                                 | —             | —             | —                  |
| Guaranteed investment contracts  | 3,704             | —                                       | —             | —             | 3,704              |
| Treasury strips                  | 121,251           | 26,282                                  | 30,426        | 26,395        | 38,148             |
| Government sponsored enterprises | 179,069           | 171,848                                 | —             | —             | 7,221              |
| Other treasury obligations       | 60,755            | —                                       | —             | —             | 60,755             |
| Certificates of deposit          | 5,000             | 5,000                                   | —             | —             | —                  |
| Investments                      | <u>\$ 850,190</u> | <u>683,541</u>                          | <u>30,426</u> | <u>26,395</u> | <u>109,828</u>     |

  

| <b>2009</b>                      |                   |   |               |               |                    |
|----------------------------------|-------------------|---|---------------|---------------|--------------------|
| <b>Investment type</b>           | <b>Fair value</b> | <b>Investment maturities (in years)</b> |               |               |                    |
|                                  |                   | <b>Less than<br/>1 year</b>             | <b>1 – 3</b>  | <b>4 – 8</b>  | <b>More than 8</b> |
| MMDT                             | \$ 104,226        | 104,226                                 | —             | —             | —                  |
| Money market fund                | 139,708           | 139,708                                 | —             | —             | —                  |
| Guaranteed investment contracts  | 40,133            | 2,930                                   | —             | —             | 37,203             |
| Treasury strips                  | 241,766           | 180,458                                 | 26,339        | 34,969        | —                  |
| Government sponsored enterprises | 125,733           | 53,201                                  | —             | —             | 72,532             |
| Other treasury obligations       | 84,013            | 9,136                                   | 10,627        | —             | 64,250             |
| Certificates of deposit          | 9,085             | 9,085                                   | —             | —             | —                  |
| Investments                      | <u>\$ 744,664</u> | <u>498,744</u>                          | <u>36,966</u> | <u>34,969</u> | <u>173,985</u>     |

**(c) Credit Ratings**

The Authority holds guaranteed investment contracts and forward delivery agreements (none held at June 30, 2010) with a fair value of \$3,704 and \$220,591 at June 30, 2010 and 2009, respectively. These investments are not rated.

The Authority had \$182,006 and \$145,321 in treasury strips and other treasury obligations as of June 30, 2010 and 2009, respectively. The investments in treasury strips and other U.S. obligations are backed by the full faith and credit of the U.S. government.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The Authority has \$179,069 and \$125,733 invested in Government Sponsored Enterprises as of June 30, 2010 and 2009, respectively. These investments have an implied credit rating of AAA or they have been collateralized to AAA.

The Authority has \$95,593 and \$104,226 invested in MMDT as of June 30, 2010 and 2009, respectively, a state investment pool managed by Fidelity Investments as agent for the Commonwealth and shareholders of the MMDT. MMDT is unrated.

The Authority also has \$389,818 and \$148,793 invested in money market funds and certificates of deposit as of June 30, 2010 and 2009, respectively. These investments are not rated.

**(d) Concentration of Credit Risk – Investments**

Concentration of credit risk is the risk of loss attributable to the magnitude of the Authority's investment in a single issuer. The issuers where securities at year-end exceeded 5% of the total investments are as follows:

|                     | <b>Credit rating<br/>Moody's/S&amp;P</b> |    | <b>2010</b>    | <b>Percentage of<br/>portfolio</b> |
|---------------------|--|----|----------------|------------------------------------|
| U.S. Bank           | Aa1/AA-                                  | \$ | 220,901        | 26.0%                              |
| Fidelity            | A2/A+                                    |    | 106,787        | 12.6                               |
| East West Bank      | Aa1/AA-                                  |    | 99,690         | 11.7                               |
| Federated Investors | Aaa                                      |    | 53,558         | 6.3                                |
|                     |  | \$ | <u>480,936</u> |                                    |

|                | <b>Credit rating<br/>Moody's/S&amp;P</b> |    | <b>2009</b>    | <b>Percentage of<br/>portfolio</b> |
|----------------|--|----|----------------|------------------------------------|
| Wachovia Bank  | Aa2/AA                                   | \$ | 116,084        | 15.6%                              |
| U.S. Bank      | Aa1/AA-                                  |    | 112,708        | 15.1                               |
| JPMorgan Chase | Aa1/AA-                                  |    | 37,706         | 5.1                                |
|                |  | \$ | <u>266,498</u> |                                    |

**(e) Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Authority was not exposed to foreign currency risk as of June 30, 2010 and 2009.

**(16) MBTA – Commuter Railroad**

Under the Authority's Enabling Act, Massachusetts General Laws, Chapter 161A, Section 3(f), the Authority may enter into agreements with private transportation companies, railroads, and other concerns

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

providing for joint or cooperative operation of any mass transportation facility and for operation and use of any mass transportation facility and equipment for the account of the Authority.

The Authority entered into an operating agreement with Massachusetts Bay Commuter Railroad Company (MBCRC) beginning July 1, 2003 for a period of five years to provide commuter railroad service over the Authority's rail lines. This contract was extended through fiscal year 2013. The Authority will pay MBCRC a total fixed base contract amount of \$2,358,866 over the approved ten-year period, with remaining payments at June 30, 2010 totaling \$821,545.

**(17) MBTA – Long-Term Debt**

**(a) Bonds Payable**

The Enabling Act authorizes the Authority to issue general obligation debt, revenue, or other debt secured by a pledge or conveyance of all or a portion of revenues, receipts, or other assets or funds of the Authority beginning July 1, 2000.

Debt issued by the Authority and outstanding at June 30, 2000 (prior obligations) is backed by the full faith and credit of the Commonwealth to the extent revenues collected by the Authority are insufficient to pay the debt, until the debt is paid off. Principal and interest payments on that debt were subsidized by the Commonwealth prior to June 30, 2000. As of June 30, 2010, prior obligations in the amount of \$743,220 are outstanding.

Debt issued by the Authority after June 30, 2000 (new debt) will not be supported by the Commonwealth's guarantee. Additionally, the Authority is not expected to receive any principal or interest subsidies from the Commonwealth for the repayment of the prior obligations and new debt of the Authority, unless authorized by special legislation.

During fiscal year 2010, the Authority issued the following bonds: the 2009 Series C Sales Tax Bonds (BABS) in the principal amount of \$218,300, the 2009 Series D Sales Tax Bonds in the amount of \$39,840, the 2010 Series A Sales Tax Bonds (Windows VRDO) in the principal amount of \$80,255 and the 2010 Series B Sales Tax Bonds in the principal amount of \$79,020.

Principal on the 2009 Series C Sales Tax Bonds is payable beginning July 1, 2020 and on each July 1st through July 1, 2039. Interest on these bonds is payable semiannually on July 1 and January 1. The 2009 Series C Sales Tax Bonds were issued as Build America Bonds pursuant to the American Recovery and Reinvestment Act (ARRA) and receive a cash subsidy from the United States Treasury in connection therewith. The 2009 Series C Sales Tax Bonds were issued to fund a portion of the Authority's Capital Investment Program (CIP).

Principal on the 2009 Series D Sales Tax Bonds is payable beginning July 1, 2014 and on each July 1st through July 1, 2019. Interest on these bonds is payable semiannually on July 1 and January 1. The 2009 Series D Sales Tax Bonds were issued to fund a portion of the Authority's CIP expenditures.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

Principal on the 2010 Series A Sales Tax Bonds Windows VRDO is payable beginning July 1, 2024 and on each July 1<sup>st</sup> through July 1, 2030. Interest on these bonds is payable semiannually on July 1 and January 1. The 2010 Series A Sales Tax Bonds Windows VRDO were issued to refinance the 2009 Series A Senior Sales Tax Bonds that were subject to a mandatory tender on February 17, 2010.

Principal on the 2010 Series B Sales Tax Bonds is payable beginning July 1, 2011 and on each July 1st through July 1, 2035, except for July 1, 2031 and July 1, 2032. Interest on these bonds is payable semiannually on July 1 and January 1. The 2010 Series B Sales Tax Bonds were issued to refund the 2000 Series A Assessment Bonds and the 2005 Series A Senior Sales Tax Bonds.

During fiscal year 2009, the Authority issued the following bonds: the 2008 Series A Assessment Bonds in the principal amount of \$354,420, the 2009 Series A Sales Tax Bonds in the principal amount of \$79,645, and the 2009 Series B Sales Tax Bonds in the principal amount of \$39,365.

Principal on the 2008 Series A Assessment Bonds is payable beginning July 1, 2013 and on each July 1st through July 1, 2034. Interest on these bonds is payable semiannually on July 1 and January 1. The 2008 Series A Assessment Bonds were issued to fund a portion of the Authority's CIP and to retire \$110,000 in outstanding commercial paper notes that were issued to fund capital expenditures related to the CIP.

The 2009 Series A Sales Tax Bonds were variable rate bonds that were subject to mandatory tender on February 17, 2010 pursuant to the Authority's current plan of finance. The Authority refinanced these bonds with proceeds of the 2010 Series A Sales Tax Bonds. Proceeds of the 2009 Series A Sales Tax Bonds in the amount of \$76,197 were used to fund a portion of the Authority's CIP.

Principal of the 2009 Series B Sales Tax Bonds is payable July 1, 2017 and July 1, 2018. Interest on these bonds is payable semiannually on July 1 and January 1. The 2009 Series B Sales Tax Bonds were issued to finance a current refunding of \$35,000 in General Transportation System bonds due March 1, 2009 and to refund the July 1, 2010 maturity of the 2000 Series A Sales Tax bonds in the amount of \$8,770.

GTS bonds, all issued prior to July 1, 2000, are payable in annual installments on March 1st; interest is payable semiannually on March 1 and September 1. The GTS bonds were issued to provide funds for the financing of the Authority's transportation property.

The Authority issued commercial paper notes (BANs) to redeem the Authority's 2003 Series B Auction Rate Bonds with a balance of \$93,375 outstanding as of June 30, 2010. The total BANs included CP Sales Tax Series A in the amount of \$46,125 a weighted average nominal rate 0.56314% and CP Sales Tax Series B in the amount of \$47,250 a weighted average nominal rate 0.28753%.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

Grant Anticipation Notes (GANs) were issued in 2004 and the principal is payable in annual installments on September 1st; interest is payable semiannually on March 1 and September 1. The GANs were issued to provide funds for the financing of the Authority's transportation properties.

Boston Metropolitan District (BMD) bonds were issued for transit purposes prior to the formation of the Authority in 1964. Certain series of BMD bonds were refunded after 1964.

The Authority's bonds outstanding at June 30, 2010 are as follows:

|   | <u>Final<br/>year of<br/>maturity</u> | <u>Interest<br/>rates</u> | <u>Outstanding<br/>principal<br/>June 30,<br/>2010</u> | <u>Due in<br/>fiscal year<br/>2011</u> |
|---|---------------------------------------|---------------------------|--|--|
| General transportation<br>system bonds:                                 |                                       |                           |  |  |
| 1974 Series A Bonds<br>dated June 1, 1974                               | 2014                                  | 5.00% – 6.60%             | \$ 6,900   | 1,725                                  |
| 1991 Series A Bonds dated<br>November 15, 1991                          | 2021                                  | 7.00%                     | 75,000   | —                                      |
| 1992 Series B Refunding<br>Bonds dated<br>December 1, 1992              | 2016                                  | 6.20%                     | 125,200  | 4,890                                  |
| 1992 Series C Bonds dated<br>November 15, 1992                          | 2013                                  | 6.10%                     | 15,575   | —                                      |
| 1993 Series A Refunding<br>Bonds dated June 1, 1993                     | 2012                                  | 5.50%                     | 29,375   | 23,425                                 |
| 1994 Series A Refunding<br>Bonds dated June 1, 1994                     | 2019                                  | 6.25% – 7.00%             | 67,445   | 22,860                                 |
| 1995 Series A Bonds dated<br>April 1, 1995                              | 2015                                  | 5.75% – 5.88%             | 64,070   | 11,435                                 |
| 1998 Series A Bonds dated<br>February 15, 1998                          | 2015                                  | 5.50%                     | 48,900   | 13,430                                 |
| 1998 Series C Bonds dated<br>November 1, 1998                           | 2022                                  | 5.25% – 5.75%             | 97,300   | 25,250                                 |
| 1999 Series Variable Rate<br>Demand Obligation<br>dated June 29, 1999*  | 2014                                  | Variable                  | 25,455   | 5,735                                  |
| 2000 Series Variable Rate<br>Demand Obligation<br>dated March 10, 2000* | 2030                                  | Variable                  | 188,000  | —                                      |
|   |                                       |                           | <u>743,220</u>   | <u>108,750</u>                         |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

|  | <u>Final<br/>year of<br/>maturity</u> | <u>Interest<br/>rates</u> | <u>Outstanding<br/>principal<br/>June 30,<br/>2010</u> | <u>Due in<br/>fiscal year<br/>2011</u> |
|--|---------------------------------------|---------------------------|--|--|
| Boston metropolitan district bonds:                                |                                       |                           |  |  |
| 2002 Series A dated<br>December 1, 2002                            | 2014                                  | 5.13% – 5.25%             | \$ 10,190  | 2,060                                  |
|  |                                       |                           | <u>10,190</u>  | <u>2,060</u>                           |
| Revenue bonds:   |                                       |                           |  |  |
| 2002 Series A Senior Sales Tax<br>Bond dated November 1, 2002      | 2017                                  | 3.88% – 5.00%             | 18,530   | —                                      |
| 2003 Series A Senior Sales Tax<br>Bond dated January 29, 2003      | 2021                                  | 4.00% – 5.25%             | 176,725  | 17,930                                 |
| 2003 Series C Senior Sales Tax<br>Bond dated February 3,<br>2004** | 2023                                  | 2.20% – 6.00%             | 219,370  | 750                                    |
| 2004 Series A Senior Sales Tax<br>Bond dated February 3, 2004      | 2016                                  | 5.00% – 5.25%             | 16,455   | —                                      |
| 2004 Series B Senior Sales Tax<br>Bond dated March 9, 2004         | 2030                                  | 3.00% – 5.25%             | 499,920  | 11,860                                 |
| 2004 Series A Assessment<br>Bond dated June 10, 2004               | 2021                                  | 3.00% – 5.25%             | 49,585   | 4,000                                  |
| 2004 Series C Senior Sales Tax<br>dated December 22, 2004          | 2024                                  | 3.50% – 5.50%             | 323,275  | —                                      |
| 2005 Series A Senior Sales Tax<br>dated March 24, 2005             | 2031                                  | 5.00%                     | 735,450  | —                                      |
| 2005 Series A Assessment Bond<br>dated September 8, 2005           | 2035                                  | 3.20% – 5.00%             | 197,250  | 5,000                                  |
| 2005 Series B Senior Sales Tax<br>dated December 21, 2005          | 2029                                  | 3.40% – 5.50%             | 92,275   | 50                                     |
| 2006 Series A Senior Sales Tax<br>Bond dated March 2, 2006         | 2034                                  | 5.25%                     | 238,850  | —                                      |
| 2006 Series B Senior Sales Tax<br>Bond dated December 5, 2006      | 2023                                  | 5.00% – 5.25%             | 212,960  | 4,960                                  |
| 2006 Series C Senior Sales Tax<br>Bond dated June 28, 2006         | 2027                                  | 4.00% – 5.00%             | 136,305  | 385                                    |
| 2006 Series A Assessment Bonds<br>dated September 13, 2006***      | 2035                                  | 4.67% – 5.25%             | 161,340  | —                                      |
| 2007 Series A-1 Senior Sales Tax<br>Bond dated May 24, 2007        | 2034                                  | 5.25%                     | 205,675  | —                                      |
| 2007 Series A-2 Senior Sales Tax<br>Bond dated May 24, 2007        | 2037                                  | Zero Coupon               | 154,353  | —                                      |



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

|  | <u>Final<br/>year of<br/>maturity</u> | <u>Interest<br/>rates</u> | <u>Outstanding<br/>principal<br/>June 30,<br/>2010</u> | <u>Due in<br/>fiscal year<br/>2011</u> |
|--|---------------------------------------|---------------------------|--|--|
| 2008 Series A-1 Senior Sales Tax<br>Bond dated April 2, 2008*      | 2037                                  | Variable                  | \$ 131,910   | 465                                    |
| 2008 Series A-2 Senior Sales Tax<br>Bond dated April 2, 2008*      | 2026                                  | Variable                  | 124,465  | —                                      |
| 2008 Series B Senior Sales Tax<br>Bond dated April 30, 2008        | 2033                                  | 3.00% – 5.25%             | 49,770   | —                                      |
| 2008 Series A Assessment Bond<br>dated November 13, 2008           | 2034                                  | 4.00% – 5.25%             | 354,420  | —                                      |
| 2009 Series B Senior Sales Tax<br>dated February 26, 2009          | 2018                                  | 3.00% – 5.00%             | 39,365   | —                                      |
| 2009 Series D Senior Sales Tax<br>dated October 29, 2009           | 2019                                  | 3.00% – 5.00%             | 39,840   | —                                      |
| 2010 Series A Senior Sales Tax<br>dated February 17, 2010****      | 2030                                  | Variable                  | 80,255   | —                                      |
| 2010 Series B Senior Sales Tax<br>dated April 6, 2010              | 2035                                  | 2.00% – 5.00%             | 79,020   | —                                      |
|  |                                       |                           | <u>4,337,363</u>                                       | <u>45,400</u>                          |
| Revenue Build America (BABs)<br>Bonds:                             |                                       |                           |  |  |
| 2009 Series C Senior Sales Tax<br>dated October 29, 2009           | 2039                                  | 4.75% – 5.57%             | 218,300  | —                                      |
|  |                                       |                           | <u>218,300</u>   | <u>—</u>                               |
| Grant Anticipation Notes (GANs):                                   |                                       |                           |  |  |
| 2004 Series A Grant Anticipation<br>Notes dated August 5, 2004     | 2011                                  | 2.75% – 5.00%             | 23,635   | 17,390                                 |
| Bond Anticipation Notes (BAN)                                      | 2010                                  | 0.26% – 0.60%             | 93,375   | 93,375                                 |
| Total bond and<br>notes payable                                    |                                       |                           | 5,426,083  | \$ <u>266,975</u>                      |
| Less current maturities  |                                       |                           | <u>(266,975)</u>                                       |  |
| Total long-term<br>bonds payable                                   |                                       |                           | 5,159,108  |  |
| Plus unamortized bond premiums                                     |                                       |                           | 329,464  |  |
| Less unamortized bond discounts/<br>losses on bond refundings, net |                                       |                           | <u>(233,427)</u>                                       |  |
| Total long-term<br>bonds payable                                   |                                       |                           | <u>\$ 5,255,145</u>                                    |  |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

- \* These bonds were issued as variable rate demand obligations and bear interest at a variable rate. The interest rates as of June 30, 2010 and 2009 are 0.26% and 0.35% for the 1999 Series Variable Rate Demand Obligation; 0.25% and 0.85% for the 2000 Series Variable Rate Demand Obligation; 0.20% and 0.12% for the 2008 Series A-1 Senior Sales Tax Bond; and 0.20% and 0.30% for the 2008 Series A-2 Senior Sales Tax Bond, respectively.
- \*\* The 2020 maturity in the amount of \$25,005 is variable debt based on the MUNI-CPI rate.
- \*\*\* The 2024 maturity in the amount of \$19,260 and the 2025 maturity in the amount of \$5,000 is variable debt based on the MUNI-CPI rate.
- \*\*\*\* This bond is variable debt based on the SIFMA rate, plus 0.09%.

The annual maturities of bonds and notes payable as of June 30, 2010 are as follows:

|                 | <u>Principal</u>    | <u>Interest</u>  |
|-----------------|---------------------|------------------|
| Fiscal year(s): |                     |                  |
| 2011            | \$ 266,975          | 265,886          |
| 2012            | 188,505             | 257,157          |
| 2013            | 213,785             | 247,601          |
| 2014            | 219,030             | 235,572          |
| 2015            | 218,710             | 223,225          |
| 2016 – 2020     | 1,149,890           | 932,154          |
| 2021 – 2025     | 1,187,599           | 668,026          |
| 2026 – 2030     | 1,072,560           | 417,528          |
| 2031 – 2035     | 770,309             | 189,591          |
| 2036 – 2040     | 138,720             | 57,151           |
| Total           | <u>\$ 5,426,083</u> | <u>3,493,891</u> |

A summary rollforward of bonds for the years ended June 30, 2010 and 2009 is as follows:

|         | 2010            |                 |                       |                                    |   |                 |
|---------|-----------------|-----------------|-----------------------|------------------------------------|---|-----------------|
|         | Balance<br>2009 | Bonds<br>issued | Principal<br>payments | Refunded/<br>redeemed<br>principal | Capital<br>appreciation<br>bond accretion | Balance<br>2010 |
| GTS     | \$ 855,535      | —               | 112,315               | —                                  | —   | 743,220         |
| BMD     | 12,260          | —               | 2,070                 | —                                  | —   | 10,190          |
| Revenue | 4,306,104       | 199,115         | 13,895                | 161,015                            | 7,054                                     | 4,337,363       |
| BABs    | —               | 218,300         | —                     | —                                  | —   | 218,300         |
| GANs    | 40,300          | —               | 16,665                | —                                  | —   | 23,635          |
| BANs    | 93,375          | 20,000          | 20,000                | —                                  | —   | 93,375          |
|         | \$ 5,307,574    | 437,415         | 164,945               | 161,015                            | 7,054                                     | 5,426,083       |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

|         | 2009            |                 |                       |                                    |   |                 |
|---------|-----------------|-----------------|-----------------------|------------------------------------|---|-----------------|
|         | Balance<br>2008 | Bonds<br>issued | Principal<br>payments | Refunded/<br>redeemed<br>principal | Capital<br>appreciation<br>bond accretion | Balance<br>2009 |
| GTS     | \$ 955,340      | —               | 64,805                | 35,000                             | —   | 855,535         |
| BMD     | 14,585          | —               | 2,325                 | —                                  | —   | 12,260          |
| Revenue | 3,854,223       | 473,430         | 19,510                | 8,770                              | 6,731                                     | 4,306,104       |
| GANs    | 56,275          | —               | 15,975                | —                                  | —   | 40,300          |
| BANs    | 105,775         | 97,600          | 110,000               | —                                  | —   | 93,375          |
|         | \$ 4,986,198    | 571,030         | 212,615               | 43,770                             | 6,731                                     | 5,307,574       |

The following funds, included in restricted assets at June 30, 2010 and 2009, are in connection with the Authority's revenue bond trust agreements:

|                      | <b>2010</b>                 |                            |              | <b>2009</b>                 |                            |              |
|----------------------|-----------------------------|----------------------------|--------------|-----------------------------|----------------------------|--------------|
|                      | <b>Assessment<br/>bonds</b> | <b>Sales Tax<br/>bonds</b> | <b>GANs</b>  | <b>Assessment<br/>bonds</b> | <b>Sales Tax<br/>bonds</b> | <b>GANs</b>  |
| Debt service         | \$ 27,279                   | 161,360                    | 171          | 23,846                      | 131,973                    | —            |
| Debt service reserve | 75,444                      | 182,257                    | 8,334        | 76,756                      | 172,112                    | 8,520        |
|                      | <u>\$ 102,723</u>           | <u>343,617</u>             | <u>8,505</u> | <u>100,602</u>              | <u>304,085</u>             | <u>8,520</u> |

The minimum required balances in the debt service reserve funds at June 30, 2010 and 2009 were \$69,375 and \$72,769 for the Assessment bonds and \$190,100 and \$174,504 for the Sales Tax bonds, respectively. The minimum required balance in the debt service reserve funds at June 30, 2010 and 2009 for GANs is \$2,344 and \$4,107, respectively. The Authority has complied with its financial bond covenants.

In order to take advantage of low interest rates and easily accessible short-term capital market, the Authority issues commercial paper to raise funds in order to pay its capital costs. The Authority has a \$250 million commercial paper program. \$150 million is administered by JPMorgan and \$100 million by Barclays Capital Inc. The Authority's commercial paper (or BANs) is rated P-1 by Moody's Investor Services and A-1+ by S&P. The Authority had \$93,375 in outstanding commercial paper as of June 30, 2010.

**(b) Debt Refundings**

In current and prior years, the Authority defeased in-substance several GTS, Sales Tax Series, and Assessment Series bonds by placing the proceeds of new bonds or available cash in an irrevocable trust fund to provide for future debt service payments on the old debt. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 2010 and 2009, \$1,610,475 and \$1,571,510 of these bonds, considered defeased in-substance, are still outstanding, respectively. On June 30, 2010 and 2009, \$4,060 in BMD bonds are considered defeased in-substance, and are still outstanding.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

In February 2010, the authority refunded \$79,645 of the 2009 A Sales Tax Bonds with the issuance of 2010 Series A Sales Tax Bonds variable rate demand obligation.

In April 2010, the Authority refunded \$41,785 of the 2000 Series A Assessment Bonds and refunded \$39,585 of the 2005 Series A Senior Sales Tax Bonds with the issuance of the 2010 Series B Senior Sales Tax Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the \$81,370 in bonds is approximately \$6,517. The accounting loss of \$1,969 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2010 Series B Senior Sales Tax Bonds.

In February 2009, the Authority refunded \$1,855 of the 1994 Series A General Transportation System Bonds, \$33,145 of the 1998 Series C General Transportation System Bonds, and \$8,770 of the 2000 Series A Sales Tax Bonds, with the issuance of the 2009 Series B Sales Tax Bonds. The difference in cash flows between the prior debt service and the new debt issued to refund the \$43,770 in bonds is approximately \$10,540. The accounting loss of \$1,429 has been presented as a reduction in the amount of outstanding debt and will be amortized over the life of the 2009 Series B Sales Tax Bonds.

**(c) *Derivative Instruments***

The Authority has entered into interest rate swaps and swaptions (referred to herein collectively as Swaps). When the Authority has entered into Swaps, the Authority has done so in order to: (1) provide lower cost fixed rate financing for its capital needs through synthetic fixed rate structures; (2) lock in long-term fixed rate returns on invested assets in its required reserve funds; (3) create synthetic refinancing with cash flow savings realized as the Authority designates; or (4) create a synthetic fixed rate for the purchase of vehicular fuel for fixed periods of time rather than being exposed to unpredictable variations in fuel prices on the spot market. All premiums/up-front payments received by the Authority in connection with the Swaps are deferred and amortized into income over the life of the swap/swaption. The premiums/up-front payments are included in the long-term liability deferred revenue and other on the statement of net assets.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**Summary of Swap Transactions by Category**

*Synthetic Fixed Rate Swap Transactions*

|                    |                                       |   |                   |                    |               | Fixed<br>payable<br>swap<br>rate | Variable<br>receivable<br>swap<br>rate  | Lump-sum<br>payment<br>from<br>counterparty | Fair value at<br>June 30 |          |
|--------------------|---------------------------------------|---|-------------------|--------------------|---------------|----------------------------------|---|---|--------------------------|----------|
| Derivative<br>item | Type                                  | Objective   | Effective<br>date | Notional<br>amount | Term.<br>date |                                  |   |   | 2010                     | 2009     |
| Cash flow hedges:  |                                       |   |                   |                    |               |                                  |   |   |                          |          |
| 1                  | Pay-fixed<br>interest<br>rate<br>swap | Hedge changes in<br>cash flows on<br>the GTS Series<br>2000 VRDO                | September<br>2005 | \$ 188,000         | 2030          | 5.00%                            | 67% of<br>LIBOR   | \$ 12,230<br>(August<br>2005)               | (45,426)                 | (36,607) |
| 3                  | Pay-fixed<br>interest<br>rate<br>swap | Hedge changes in<br>cash flows on<br>the Senior Sales<br>Tax Series<br>2003 C   | February<br>2004  | 25,005             | 2020          | 4.13                             | CPI+79<br>basis points  | N/A   | (1,857)                  | (1,799)  |
| 4                  | Pay-fixed<br>interest<br>rate<br>swap | Hedge changes in<br>cash flows on<br>the Assessment<br>Series 2006 A            | October<br>2008   | 19,260             | 2024          | 4.67                             | CPI+123<br>basis points   | 607   | (731)                    | (680)    |
| 5                  | Pay-fixed<br>interest<br>rate<br>swap | Hedge changes in<br>cash flows on<br>the Assessment<br>Series 2006 A            | October<br>2008   | 5,000              | 2025          | 4.66                             | SIFMA   | 142   | (179)                    | (171)    |
| 6                  | Pay-fixed<br>interest<br>rate<br>swap | Hedge changes in<br>cash flows on<br>the Senior Sales<br>Tax Series<br>2008 A-1 | October<br>2008   | 131,910            | 2021          | 3.83                             | SIFMA to<br>June 30, 2010<br>and thereafter<br>receives 62%<br>of LIBOR plus<br>24 basis points | 3,067                                       | (13,608)                 | (6,296)  |
| 7                  | Pay-fixed<br>interest<br>rate<br>swap | Hedge changes in<br>cash flows on<br>the Senior Sales<br>Tax Series<br>2008 A-2 | October<br>2008   | 124,465            | 2026          | 3.08                             | SIFMA   | 116   | (12,581)                 | (6,632)  |
| 8                  | Pay-fixed<br>interest<br>rate<br>swap | Hedge changes in<br>cash flows on<br>the Senior Sales<br>Tax Series<br>2009 A   | March<br>2009     | 79,645             | 2030          | 5.61                             | SIFMA   | 4,140<br>(August<br>2005)                   | (24,283)                 | (19,131) |
|                    |                                       |   |                   |                    |               |                                  |   |   | (98,665)                 | (71,316) |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

| Derivative<br>item      | Type   | Objective  | Effective<br>date | Notional<br>amount | Term.<br>date | Fixed<br>payable<br>swap<br>rate | Variable<br>receivable<br>swap<br>rate | Lump-sum<br>payment<br>from<br>counterparty | Fair value at |          |
|-------------------------|--|--|-------------------|--------------------|---------------|----------------------------------|--|---|---------------|----------|
|                         |  |  |                   |                    |               |                                  |  |   | June 30       |          |
|                         |  |  |                   |                    |               |                                  |  |   | 2010          | 2009     |
| Investment derivatives: |  |  |                   |                    |               |                                  |  |   |               |          |
| 2                       | Pay-fixed<br>interest<br>rate<br>swap          | (a) Originally to<br>hedge changes<br>in cash flows<br>on variable<br>rate debt  | February<br>2003  | \$ 87,805          | 2022          | 5.20                             | SIFMA                                  | \$ 4,586<br>(August<br>2007)                | (19,544)      | (15,915) |
| 9                       | Received-<br>fixed<br>interest<br>rate<br>swap | (b) Hedge changes<br>in cash flows<br>on the debt<br>service<br>reserve funds<br>of the 2000<br>Assessment<br>and Sales<br>Tax Bonds | December<br>2000  | 49,123             | 2030          | 5.60                             | SIFMA                                  | 1,265                                       | (2,333)       | (2,558)  |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |
|                         |  |  |                   |                    |               |                                  |  |   |               |          |

(a) The 2003 B-1 and 2003 B-2 hedged bonds were legally redeemed in March 2008 through the issuance of commercial paper.

(b) This is a swaption with exercise dates of January 1 and July 1 from July 2010 through July 2030.

The aggregate fair value balance of the derivative instruments at June 30, 2010 and 2009 is \$(120,542) and \$(89,789), respectively, and is reflected on the Authority's statement of net assets as liability for derivative instruments. Of this liability, \$98,665 and \$71,316, at June 30, 2010 and 2009, respectively, were offset by deferred outflows from derivative instruments that qualify for hedge accounting. As of June 30, 2010, 2009, and 2008, the Authority determined that the investment derivative instruments do not meet the criteria for effectiveness. Accordingly, the fair value at June 30, 2008, \$(14,577) was charged to beginning net assets and decrease in fair value of the swap, \$(3,404) and \$(3,896) in fiscal year 2010 and 2009, respectively, was reported within nonoperating revenue (expense) on the statements of revenue, expenses, and changes in net assets.

The fair values of the interest rate swaps were calculated by a third party derivative advisor where each leg of the swap is valued utilizing the present value of expected future cash flows based on the contractual terms of each swap or an "at the market rate" in accordance with GASB Statement No. 53. Expected cash flows are discounted using the US Dollar Swap curve provided by independent third parties such as Bloomberg.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

*Swap Payments and Associated Debt*

As of June 30, 2010, debt service requirements of the GTS Series 2000 VRDO Bonds (2000 Bonds) and net swap payments, applying the fixed rate on the swap of 5.0% and assuming the 67% of LIBOR rate is 0.20477% and the variable rate on the 2000 Bonds is 0.25% through the term of the swap, were as follows. As rates vary, variable rate interest rate payments on the 2000 Bonds and net swap payments will vary.

| <b>Fiscal year(s)<br/>ending June 30</b> | <b>2000 Bonds<br/>principal</b> | <b>2000 Bonds<br/>interest</b> | <b>Interest rate<br/>swap, net</b> | <b>Total</b> |
|--|---------------------------------|--------------------------------|------------------------------------|--------------|
| 2011                                     | \$ —                            | 470                            | 9,015                              | 9,485        |
| 2012                                     | 2,335                           | 464                            | 8,903                              | 11,702       |
| 2013                                     | 5,460                           | 451                            | 8,641                              | 14,552       |
| 2014                                     | 5,845                           | 436                            | 8,361                              | 14,642       |
| 2015                                     | 6,250                           | 420                            | 8,061                              | 14,731       |
| 2016 – 2020                              | 38,475                          | 1,826                          | 35,021                             | 75,322       |
| 2021 – 2025                              | 53,960                          | 1,234                          | 23,668                             | 78,862       |
| 2026 – 2030                              | 75,675                          | 404                            | 7,748                              | 83,827       |
| Totals                                   | \$ 188,000                      | 5,705                          | 109,418                            | 303,123      |

As of June 30, 2010, debt service requirements on the 2003 Series C Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 4.13% and assuming CPI rate of 2.614% plus 79 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2003 Series C bonds and net swap payments will vary.

| <b>Fiscal year(s)<br/>ending June 30</b> | <b>2003<br/>Series C<br/>Sales Tax<br/>Bonds<br/>principal</b> | <b>2003<br/>Series C<br/>Sales Tax<br/>Bonds<br/>interest</b> | <b>Interest rate<br/>swap, net</b> | <b>Total</b> |
|--|--|---|------------------------------------|--------------|
| 2011                                     | \$ —   | 851   | 182                                | 1,033        |
| 2012                                     | —  | 851   | 182                                | 1,033        |
| 2013                                     | —  | 851   | 182                                | 1,033        |
| 2014                                     | —  | 851   | 182                                | 1,033        |
| 2015                                     | —  | 851   | 182                                | 1,033        |
| 2016 – 2020                              | 25,005   | 3,972   | 847                                | 29,824       |
|  | \$ 25,005  | 8,227   | 1,757                              | 34,989       |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

As of June 30, 2010, debt service requirements on 2006 Series A Assessment Bonds and net swap payments, applying the fixed rate on the swap of 4.67% and assuming the CPI rate of 2.614% plus 123 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

| <b>Fiscal year(s)<br/>ending June 30</b> | <b>2006<br/>Series A<br/>Assessment<br/>Bonds<br/>principal</b> | <b>2006<br/>Series A<br/>Assessment<br/>Bonds<br/>interest</b> | <b>Interest rate<br/>swap, net</b> | <b>Total</b>  |
|--|---|--|------------------------------------|---------------|
| 2011                                     | \$ —  | 758  | 159                                | 917           |
| 2012                                     | —   | 758  | 159                                | 917           |
| 2013                                     | —   | 758  | 159                                | 917           |
| 2014                                     | —   | 758  | 159                                | 917           |
| 2015                                     | —   | 758  | 159                                | 917           |
| 2016 – 2020                              | —   | 3,788  | 795                                | 4,583         |
| 2021 – 2025                              | 19,260  | 3,030  | 636                                | 22,926        |
|  | <u>\$ 19,260</u>  | <u>10,608</u>  | <u>2,226</u>                       | <u>32,094</u> |

As of June 30, 2010, debt service requirements on 2006 Series A Assessment Bonds and net swap payments, applying the fixed rate on the swap of 4.66% and assuming the CPI rate of 2.614% plus 123 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2006 bonds will vary.

| <b>Fiscal year(s)<br/>ending June 30</b> | <b>2006<br/>Series A<br/>Assessment<br/>Bonds<br/>principal</b> | <b>2006<br/>Series A<br/>Assessment<br/>Bonds<br/>interest</b> | <b>Interest rate<br/>swap, net</b> | <b>Total</b> |
|--|---|--|------------------------------------|--------------|
| 2011                                     | \$ —  | 197  | 41                                 | 238          |
| 2012                                     | —   | 197  | 41                                 | 238          |
| 2013                                     | —   | 197  | 41                                 | 238          |
| 2014                                     | —   | 197  | 41                                 | 238          |
| 2015                                     | —   | 197  | 41                                 | 238          |
| 2016 – 2020                              | —   | 985  | 205                                | 1,190        |
| 2021 – 2025                              | —   | 985  | 205                                | 1,190        |
| 2026                                     | 5,000   | —  | —                                  | 5,000        |
|  | <u>\$ 5,000</u>   | <u>2,955</u>   | <u>615</u>                         | <u>8,570</u> |



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

As of June 30, 2010, debt service requirements on 2008 Series A-1 Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.834% and assuming the SIFMA index rate is 0.31% and the variable rate on 2008 Series A-1 bonds is 0.20% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

| <b>Fiscal year(s)<br/>ending June 30</b> | <b>2008<br/>Series A-1<br/>Sales Tax<br/>Bonds<br/>principal</b> | <b>2008<br/>Series A-1<br/>Sales Tax<br/>Bonds<br/>interest</b> | <b>Interest rate<br/>swap, net</b> | <b>Total</b>   |
|--|--|---|------------------------------------|----------------|
| 2011                                     | \$ —   | 264   | 4,649                              | 4,913          |
| 2012                                     | —  | 264   | 4,649                              | 4,913          |
| 2013                                     | —  | 264   | 4,649                              | 4,913          |
| 2014                                     | 135  | 264   | 4,644                              | 5,043          |
| 2015                                     | 735  | 262   | 4,618                              | 5,615          |
| 2016 – 2020                              | 81,420   | 907   | 15,989                             | 98,316         |
| 2021 – 2022                              | 49,620   | 57  | 1,006                              | 50,683         |
|  | <u>\$ 131,910</u>  | <u>2,282</u>  | <u>40,204</u>                      | <u>174,396</u> |

As of June 30, 2010, debt service requirements on 2008 Series A-2 Sales Tax Bonds and net swap payments, applying the fixed rate on the swap of 3.083% and assuming the SIFMA index rate is 0.31% and the variable rate on 2008 Series A-1 bonds is 0.20% through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2008 bonds will vary.

| <b>Fiscal year(s)<br/>ending June 30</b> | <b>2008<br/>Series A-2<br/>Sales Tax<br/>Bonds<br/>principal</b> | <b>2008<br/>Series A-2<br/>Sales Tax<br/>Bonds<br/>interest</b> | <b>Interest rate<br/>swap, net</b> | <b>Total</b>   |
|--|--|---|------------------------------------|----------------|
| 2011                                     | \$ 465   | 248   | 3,439                              | 4,152          |
| 2012                                     | 485  | 247   | 3,425                              | 4,157          |
| 2013                                     | 500  | 246   | 3,411                              | 4,157          |
| 2014                                     | 515  | 245   | 3,397                              | 4,157          |
| 2015                                     | 535  | 244   | 3,382                              | 4,161          |
| 2016 – 2020                              | 2,935  | 1,202   | 16,671                             | 20,808         |
| 2021 – 2025                              | 74,220   | 890   | 12,340                             | 87,450         |
| 2026 – 2027                              | 44,810   | 38  | 524                                | 45,372         |
|  | <u>\$ 124,465</u>  | <u>3,360</u>  | <u>46,589</u>                      | <u>174,414</u> |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

As of June 30, 2010, debt service requirements on 2010 Series A Sales Tax Bonds and net swap payments applying the fixed rate on the swap of 5.61% and assuming SIFMA index rate is 0.31% and the variable rate on 2010 Series A Bonds is 0.31% plus 9 basis points through the term of the swap, were as follows. As rates vary, variable interest rate payments on the 2010 bonds will vary.

| <b>Fiscal year(s)<br/>ending June 30</b> | <b>2010<br/>Series A<br/>Sales Tax<br/>Bonds<br/>principal</b> | <b>2010<br/>Series A<br/>Sales Tax<br/>Bonds<br/>interest</b> | <b>Interest<br/>rate swap,<br/>net</b> | <b>Total</b>   |
|--|--|---|--|----------------|
| 2011                                     | \$ —   | 319   | 4,221                                  | 4,540          |
| 2012                                     | —  | 319   | 4,221                                  | 4,540          |
| 2013                                     | —  | 319   | 4,221                                  | 4,540          |
| 2014                                     | —  | 319   | 4,221                                  | 4,540          |
| 2015                                     | —  | 319   | 4,221                                  | 4,540          |
| 2016 – 2020                              | —  | 1,593   | 21,105                                 | 22,698         |
| 2021 – 2025                              | 9,515  | 1,555   | 20,602                                 | 31,672         |
| 2026 – 2030                              | 56,705   | 746   | 9,913                                  | 67,364         |
| 2031                                     | 13,425   | —   | —                                      | 13,425         |
|  | <u>\$ 79,645</u>   | <u>5,489</u>  | <u>72,725</u>                          | <u>157,859</u> |

*Risk Disclosure*

*Credit Risk* – Because all of the Authority’s Swaps rely upon the performance of the third parties who serve as swap counterparties, the Authority is exposed to credit risk, or the risk that a swap counterparty fails to perform according to its contractual obligations. The appropriate measurement of this risk at the reporting date is the fair value of the swaps, as shown in the columns labeled fair value in the tables above. To mitigate credit risk, the Authority maintains strict credit standards for swap counterparties. All swap counterparties for long-term swaps are rated in the A category by both Moody’s and S&P. To further mitigate credit risk, the Authority’s swap documents require counterparties to post collateral for the Authority’s benefit if they are downgraded below a designated threshold.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The following represents the credit ratings of the counterparties as of June 30, 2010:

| <b>Derivative<br/>swap item</b> | <b>Counterparty<br/>credit rating<br/>Moody's/S&amp;P</b> |
|---------------------------------|---|
| Derivative 1                    | Aa3/A+  |
| Derivative 2                    | Aa1/AA-   |
| Derivative 3                    | A2/A  |
| Derivative 4                    | Aa3/A+  |
| Derivative 5                    | Aa3/A+  |
| Derivative 6                    | Aa3/A+  |
| Derivative 7                    | Aa3/A+  |
| Derivative 8                    | Aa1/AA-   |
| Derivative 9                    | Aa3/A+  |

*Basis Risk* – The Authority is exposed to basis risk if the relationship between the floating rate the Authority receives under the swaps falls short of the variable rate on the associated bonds. Should this occur, the expected saving may not be realized.

*Termination Risk* – The Authority's swap agreements do not contain any out-of-the-ordinary termination events that would expose it to significant termination risk. In keeping with market standards, the Authority or the counterparty may terminate each swap if the other party fails to perform under the terms of the contract. In addition, the swap documents allow either party to terminate in the event of a significant loss of creditworthiness. If at the time of the termination a swap has a negative value, the Authority would be liable to the counterparty for a payment equal to the fair value of such swap.

*Rollover Risk* – Rollover risk is the risk that occurs when the term of a swap does not match the term or maturity of the debt associated with the hedge. The Authority has no rollover risk at June 30, 2010 as the term periods for all the Authority's swaps match the maturities of their associated debt.

**(18) MBTA – Retirement Plans**

The Authority provides retirement benefits to employees through four defined benefit retirement plans and one defined contribution plan: The MBTA Retirement Plan, the MBTA Police Association Plan, the MBTA Deferred Compensation Plan, the MBTA Qualified Deferred Compensation Plan, and the MBTA Deferred Compensation Savings Plan. The Authority also provides supplemental pension benefits after retirement.

The MBTA Retirement Plan, a single-employer plan, covers all employees except the MBTA police, who are covered separately, and certain executives who elect coverage under an alternate plan. This retirement plan and the MBTA Police Association Plan, a single-employer plan, provide retirement, disability, and death benefits. The MBTA Retirement Plan issues separately audited financial statements that may be

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

obtained by writing to One Washington Mall, Boston, Massachusetts 02108, or by calling (617) 316-3800. The MBTA Police Association Plan does not issue separately audited financial statements.

The MBTA Deferred Compensation Plan, a single-employer plan, provides supplemental pension benefits for certain executive and Local 453 (collective bargaining unit) employees after retirement. Employees may participate in both the MBTA Retirement Plan and the MBTA Deferred Compensation Plan. The MBTA Deferred Compensation Plan does not issue separately audited financial statements.

The Authority created a new qualified deferred compensation plan effective January 1, 2001. The plan is designed to supplement the Authority's Retirement Plan (Main Fund). Covered employees include all actively employed nonunion employees who are participating in the Authority's Main Fund or the Police Association Retirement Plan. Employees are eligible after five years with the Authority, if they have reached age 30 and are paid as part of the executive payroll. The plan currently provides benefits for 187 retirees. The MBTA Qualified Deferred Compensation Plan does not issue separately audited financial statements. An actuarial valuation was performed on this plan; however, the cost of this plan to the Authority for fiscal year 2010 was minimal and no contributions were made to this plan in fiscal year 2010. In addition, the net pension obligation is considered immaterial.

**(a) Funding Policy and Annual Pension Cost**

The board of trustees of each plan establishes the contribution requirements; however, the Authority may amend these requirements. The MBTA Retirement Plan requires members, as of May 8, 2010, to contribute 5.124% with the Authority currently paying an amount equal to 14.026% of total payroll. The members contributed 4.301% prior to May 8, 2010 with the Authority paying an amount equal to approximately 11.559% of total payroll. The actuarial required contribution rate for the Authority was 14.2318%. The contribution requirements for the Police Association Plan were 14.6120% for the Authority and 7.2850% for employees. Both were determined in accordance with actuarial valuations. Actual contributions made in 2010 and 2009 were in accordance with these contribution requirements.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

Deferred compensation contributions are made on a “pay-as-you-go” basis. The Authority’s annual pension cost for the years ended June 30, 2010 and 2009 and related information for each plan is as follows:

| <b>2010</b>                     |                             |                                     |  |
|---------------------------------|-----------------------------|-------------------------------------|--|
| <b>Pension</b>                  | <b>MBTA Retirement Plan</b> | <b>MBTA Police Association Plan</b> | <b>MBTA Deferred Compensation Plan</b> |
| Annual pension cost – authority | \$ 53,887                   | 2,468                               | 5,602                                  |
| Contributions made – authority  | 42,920                      | 2,140                               | 4,904                                  |
| Actuarial valuation date/update | June 30, 2010               | June 30, 2010                       | June 30, 2010                          |
| Actuarial cost method           | Entry age                   | Entry age                           | Entry age                              |
| Amortization method             | Level dollar                | Level dollar                        | Level dollar                           |
| Amortization period             | 30 years                    | 30 years                            | 30 years                               |
| Asset valuation method          | 5-year moving               | 5-year moving                       | 5-year moving                          |
| Actuarial assumptions:          |                             |                                     |  |
| Interest rate                   | 7.50%                       | 7.00%                               | 8.00%                                  |
| Projected salary increases      | 4.00                        | 4.50                                | 4.00                                   |
| <b>2009</b>                     |                             |                                     |  |
| <b>Pension</b>                  | <b>MBTA Retirement Plan</b> | <b>MBTA Police Association Plan</b> | <b>MBTA Deferred Compensation Plan</b> |
| Annual pension cost – authority | \$ 44,642                   | 2,230                               | 5,320                                  |
| Contributions made – authority  | 35,495                      | 2,220                               | 4,763                                  |
| Actuarial valuation date/update | June 30, 2009               | June 30, 2009                       | June 30, 2009                          |
| Actuarial cost method           | Entry age                   | Entry age                           | Entry age                              |
| Amortization method             | Level dollar                | Level dollar                        | Level dollar                           |
| Amortization period             | 30 years                    | 30 years                            | 30 years                               |
| Asset valuation method          | 5-year moving               | 5-year moving                       | 5-year moving                          |
| Actuarial assumptions:          |                             |                                     |  |
| Interest rate                   | 7.00%                       | 7.00%                               | 7.00%                                  |
| Projected salary increases      | 5.00                        | 4.50                                | 5.00                                   |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

Changes in the net pension obligation for these plans for the years ended June 30, 2010 and 2009 are as follows:

| <b>2010</b>                               |                                     |   |  |
|---|-------------------------------------|---|--|
| <b>Pension</b>                            | <b>MBTA<br/>Retirement<br/>Plan</b> | <b>MBTA Police<br/>Association<br/>Plan</b> | <b>MBTA<br/>Deferred<br/>Compensation<br/>Plan</b> |
| Net pension obligation, beginning of year | \$ (22,048)                         | (837)                                       | (7,978)  |
| Annual pension cost                       | (53,887)                            | (2,468)                                     | (5,602)  |
| Contributions and other adjustments       | 42,920                              | 2,140                                       | 4,904  |
| Net pension obligation, end of year       | \$ <u>(33,015)</u>                  | <u>(1,165)</u>                              | <u>(8,676)</u>                                     |
| <b>2009</b>                               |                                     |   |  |
| <b>Pension</b>                            | <b>MBTA<br/>Retirement<br/>Plan</b> | <b>MBTA Police<br/>Association<br/>Plan</b> | <b>MBTA<br/>Deferred<br/>Compensation<br/>Plan</b> |
| Net pension obligation, beginning of year | \$ (12,901)                         | (827)                                       | (7,421)  |
| Annual pension cost                       | (44,642)                            | (2,230)                                     | (5,320)  |
| Contributions and other adjustments       | 35,495                              | 2,220                                       | 4,763  |
| Net pension obligation, end of year       | \$ <u>(22,048)</u>                  | <u>(837)</u>                                | <u>(7,978)</u>                                     |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(b) Three-Year Trend Information**

|                                    | <u>Year ending</u> | <u>Annual<br/>pension cost<br/>(APC)</u> | <u>Percentage<br/>of APC<br/>contributed</u> | <u>Net pension<br/>obligation</u> |
|------------------------------------|--------------------|--|--|-----------------------------------|
| MBTA Retirement Plan               | June 30, 2008      | \$ 37,106                                | 94%  | \$ (12,901)                       |
|                                    | June 30, 2009      | 44,642                                   | 80   | (22,048)                          |
|                                    | June 30, 2010      | 53,887                                   | 80   | (33,015)                          |
| MBTA Police Association<br>Plan    | June 30, 2008      | \$ 2,163                                 | 85%  | \$ (827)                          |
|                                    | June 30, 2009      | 2,230                                    | 99   | (837)                             |
|                                    | June 30, 2010      | 2,468                                    | 87   | (1,165)                           |
| MBTA Deferred<br>Compensation Plan | June 30, 2008      | \$ 5,162                                 | 89%  | \$ (7,421)                        |
|                                    | June 30, 2009      | 5,320                                    | 90   | (7,978)                           |
|                                    | June 30, 2010      | 5,602                                    | 88   | (8,676)                           |

**(c) Actuarial Funded Status**

**MBTA Retirement and Police Association Plans**

| <u>Valuation date</u>                         | <u>Actuarial<br/>value<br/>of assets (a)</u> | <u>Actuarial<br/>accrued<br/>liability<br/>(AAL) (b)</u> | <u>(Funded)<br/>unfunded<br/>AAL<br/>(UAAL)<br/>(b-a)</u> | <u>Funded<br/>ratio (a/b)</u> | <u>Covered<br/>payroll (c)</u> | <u>UAAL as a<br/>percentage<br/>of covered<br/>payroll<br/>((b-a)/c)</u> |
|---|--|--|---|-------------------------------|--------------------------------|--|
| Retirement Plan:<br>December 31, 2008         | \$ 1,729,738                                 | 2,141,576  | 411,838   | 80.77%                        | \$ 377,795                     | 109.01%  |
| Police Association Plan:<br>December 31, 2008 | 47,594                                       | 60,029   | 12,435  | 79.29                         | 15,766                         | 78.87  |

**MBTA Deferred Compensation Plan**

The MBTA Deferred Compensation Plan is not currently funded; as a result, the normal schedule of funding progress would show no provision having been made for the cost of this plan.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

In the table below, column (b) which normally would have contained the plan's assets, contains instead the net pension obligation (amounts previously charged against operations but not yet contributed to the plan). This alternative presentation shows how much of the cost of the program has been charged against operations in prior years.

| <u>Valuation date</u> | <u>Actuarial<br/>accrued<br/>liability (a)</u> | <u>Net pension<br/>obligation (b)</u> | <u>Actuarial<br/>accrued<br/>liability (c)<br/>(a)-(b)</u> | <u>Recognized<br/>ratio (d) (b)/(a)</u> | <u>Unrecognized<br/>ratio (e) (c)/(a)</u> | <u>Covered<br/>payroll (f)</u> |
|-----------------------|--|---------------------------------------|--|---|---|--------------------------------|
| July 1, 2009          | \$ 47,363                                      | 7,978                                 | 39,385   | 16.8%                                   | 83.2%                                     | \$ 34,446                      |

The schedule of funding progress, is available in the complete set of the Authority's financial statements, but is not presented in MassDOT's financial statements.

**(d) The MBTA Deferred Compensation Savings Plan**

The Authority provides a defined contribution retirement plan for nonunion and grandfathered union management not participating in the MBTA Retirement Plan. Authority employee trustees administer the plan and recommend benefit amendments that require approval from the Authority's general manager. The plan requires members to contribute 4% of total covered payroll with the Authority contributing 8%. The plan has approximately 268 and 276 members at June 30, 2010 and 2009, respectively, and the cost of the Plan to the Authority was \$653 and \$842 for fiscal years 2010 and 2009, respectively. Member contributions vest to plan members immediately, while contributions made by the Authority vest to plan members as follows: 50% after three years; 75% after four years; and 100% after five years of credited service.

**(19) MBTA – Lease Obligations**

**(a) Lease-In/Lease-Out (LILO)**

The Authority has entered into various lease/sublease financing arrangements for heavy rail, commuter rail cars, and buildings. These agreements provide for the lease of the property and equipment owned by the Authority to a financial party lessee and the sublease of such equipment back to the Authority for various periods. At the time of these transactions, funds were deposited with financial institutions sufficient to meet all payment obligations under the terms of the lease agreements and U.S. Treasury strips were purchased in an amount sufficient to satisfy each agreement's purchase option price provided for in the leases.

**(b) Sale-In/Lease-Out**

Guaranteed debt and equity payment undertaking agreements were in place at AAA/Aaa-rated financial institutions, until this institution's credit rating was downgraded. Pursuant to requirements of these agreements, collateral was posted in July 2008, for the Authority's benefit. The Authority and the equity investor agreed, subsequent to June 30, 2009, to terminate these payment undertaking agreements and replace the guarantor with an obligation assumed by the Authority. The net



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

economic gain for terminating these agreements to the Authority was \$797, which was recorded to the Authority's deferred lease benefit accounts, in fiscal year 2010.

**(c) Cross-Border Leases and Other Capital Lease Arrangements**

The Authority has entered into cross-border leases related to the financing of heavy rail cars. Provisions in these leases allow for the Authority to sell and lease back the equipment over a period of years. Additionally, the lease agreements include a purchase option granting the Authority the right to purchase the equipment at the end of the lease terms. The Authority has deposited funds with financial institutions sufficient to meet all of its payment obligations under the terms of the leases. Because the transaction does not meet the criteria for an "in-substance defeasance," funds on deposit and the related lease liability have been included in the accompanying financial statements.

Transportation property and facilities under capital leases are summarized in the capital assets note.

The following is a schedule by year of future minimum lease payments under the LILO, cross-border, and other capital lease arrangements together with the present value of net minimum lease payments as of June 30, 2010:

|   |                        |
|---|------------------------|
| Fiscal year(s):                             |                        |
| 2011  | \$ 60,479              |
| 2012  | 64,035                 |
| 2013  | 66,633                 |
| 2014  | 59,595                 |
| 2015  | 52,568                 |
| 2016 – 2020                                 | 4,735                  |
| 2021 – 2023                                 | 35,977                 |
|   | <hr/> 344,022          |
| Less amount representing interest           | <hr/> (44,992)         |
| Present value of net minimum lease payments | 299,030                |
| Less current principal maturities           | <hr/> (36,871)         |
| Obligations under capital leases            | \$ <hr/> <hr/> 262,159 |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The liability for these leases changed in 2010 and 2009 as follows:

|                             |    |                       |
|-----------------------------|----|-----------------------|
| Outstanding – June 30, 2008 | \$ | 674,841               |
| Net change in obligation    |    | <u>(378,802)</u>      |
| Outstanding – June 30, 2009 |    | 296,039               |
| Net change in obligation    |    | <u>2,991</u>          |
| Outstanding – June 30, 2010 | \$ | <u><u>299,030</u></u> |

**(d) Operating Leases**

The Authority has entered into several sale-leaseback agreements with major financial institutions (the lessors) covering equipment and rolling stock. The leases mature through 2013. At the end of the lease terms, the Authority may purchase the vehicles at prices equal to the lesser of a stated percentage (40% – 70%) of the lessors' original purchase price or residual fair market value, as defined.

The leases have been accounted for as operating leases. Prior to July 1, 2000, payments for these leases were eligible for 90% reimbursement from the Commonwealth. After July 1, 2000, the Authority is no longer entitled to and has not received any of this assistance from the Commonwealth. However, these leases will continue to be guaranteed by the Commonwealth.

Future minimum operating lease payments at June 30, 2010 are as follows:

|              |    |                      |
|--------------|----|----------------------|
| Fiscal year: |    |                      |
| 2011         | \$ | 10,845               |
| 2012         |    | 9,930                |
| 2013         |    | <u>6,177</u>         |
|              | \$ | <u><u>26,952</u></u> |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(20) MBTA – Capital Assets**

Capital assets at June 30, 2010 and 2009 are as follows:

|   | <b>Beginning<br/>balance<br/>June 30,<br/>2009</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>balance<br/>June 30,<br/>2010</b> |
|---|--|------------------|------------------|---|
| Capital assets not being depreciated:             |  |                  |                  |   |
| Land  | \$ 308,648   | 4,213            | 649              | 312,212   |
| Construction work in progress                     | 468,772  | 374,929          | 364,514          | 479,187   |
| Total capital assets not being depreciated        | <u>777,420</u>                                     | <u>379,142</u>   | <u>365,163</u>   | <u>791,399</u>                                  |
| Other capital assets:                             |  |                  |                  |   |
| Ways and structures                               | 8,897,344  | 285,862          | —                | 9,183,206                                       |
| Buildings and equipment                           | 2,275,661  | 74,712           | 18,876           | 2,331,497                                       |
| Buildings and equipment included in capital lease | 413,940  | —                | 6,427            | 407,513   |
| Total   | <u>11,586,945</u>                                  | <u>360,574</u>   | <u>25,303</u>    | <u>11,922,216</u>                               |
| Less accumulated depreciation for:                |  |                  |                  |   |
| Ways and structures                               | 2,952,887  | 202,913          | —                | 3,155,800                                       |
| Buildings and equipment                           | 1,024,536  | 125,928          | 18,876           | 1,131,588                                       |
| Buildings and equipment included in capital lease | 270,908  | 16,298           | 6,427            | 280,779   |
| Total   | <u>4,248,331</u>                                   | <u>345,139</u>   | <u>25,303</u>    | <u>4,568,167</u>                                |
| Other capital assets, net                         | <u>7,338,614</u>                                   | <u>15,435</u>    | <u>—</u>         | <u>7,354,049</u>                                |
| Capital assets, net                               | <u>\$ 8,116,034</u>                                | <u>394,577</u>   | <u>365,163</u>   | <u>8,145,448</u>                                |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

|   | <b>Beginning<br/>balance<br/>June 30,<br/>2008</b> | <b>Increases</b> | <b>Decreases</b> | <b>Ending<br/>balance<br/>June 30,<br/>2009</b> |
|---|--|------------------|------------------|---|
| Capital assets not being depreciated:             |  |                  |                  |   |
| Land  | \$ 309,228   | —                | 580              | 308,648   |
| Construction work in progress                     | 544,902  | 474,040          | 550,170          | 468,772   |
| Total capital assets not being depreciated        | 854,130  | 474,040          | 550,750          | 777,420   |
| Other capital assets:                             |  |                  |                  |   |
| Ways and structures                               | 8,311,898  | 585,446          | —                | 8,897,344                                       |
| Ways and structures included in capital lease     | 298,169  | —                | 298,169          | —   |
| Buildings and equipment                           | 2,032,728  | 328,211          | 85,278           | 2,275,661                                       |
| Buildings and equipment included in capital lease | 476,941  | —                | 63,001           | 413,940   |
| Total   | 11,119,736   | 913,657          | 446,448          | 11,586,945                                      |
| Less accumulated depreciation for:                |  |                  |                  |   |
| Ways and structures                               | 2,706,308  | 246,579          | —                | 2,952,887                                       |
| Ways and structures included in capital lease     | 50,648   | —                | 50,648           | —   |
| Buildings and equipment                           | 951,745  | 158,069          | 85,278           | 1,024,536                                       |
| Buildings and equipment included in capital lease | 287,805  | 13,510           | 30,407           | 270,908   |
| Total   | 3,996,506  | 418,158          | 166,333          | 4,248,331                                       |
| Other capital assets, net                         | 7,123,230  | 495,499          | 280,115          | 7,338,614                                       |
| Capital assets, net                               | \$ 7,977,360                                       | 969,539          | 830,865          | 8,116,034                                       |

**(21) MBTA – Risk Management**

The Authority is exposed to various risks of loss related to general liability, property and casualty, workers compensation, unemployment, and employee health insurance claims.

Buildings are fully insured to the extent that losses exceed \$5,000 subsequent to March 1, 2007, and \$350 per incident prior to that date. The Authority is self-insured for workers compensation, unemployment

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

claims, vehicle damage and loss, and health insurance. The Authority pays 85% of all health premiums up to a maximum of \$200 per individual for all Blue Cross plans and \$100 per individual for Harvard and Tufts plans. The Authority pays 75% to 80% of all healthcare premiums for active employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth. The Authority pays 80% to 90% of all health premiums for retired employees within the health insurance plans administered by the Group Insurance Commission of the Commonwealth. Stop-loss insurance is carried on health insurance claims in excess of these amounts per individual per illness.

The Authority self-funds a \$7,500 per occurrence deductible for general liability. The Authority has a program of excess public liability insurance to provide for \$67,500 of layered coverage on a per occurrence and annual aggregate basis. In the opinion of the general counsel to the Authority, payments of claims by the Authority for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

During fiscal years 2010 and 2009, expenditures for claims and judgments, excluding workers compensation, and health and life, were \$14,054 and \$19,311, respectively. Expenditures for claims related to workers compensation were \$10,897 and \$8,675, and expenditures for the self-insured health plans were \$128,458 and \$123,204 for the years ended June 30, 2010 and 2009, respectively.

GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and related Insurance Issues*, requires that liabilities for self-insured claims be reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. The Authority reserves such liabilities, which consist of workers compensation, health claims, and injuries and damages (legal claims) as accrued expenses as of June 30, 2010, 2009, and 2008. Changes in the self-insurance liabilities in fiscal years 2010, 2009, and 2008 were as follows:

|                              | <u>2010</u>      | <u>2009</u>      | <u>2008</u>      |
|------------------------------|------------------|------------------|------------------|
| Liability, beginning of year | \$ 98,280        | 97,145           | 112,415          |
| Provisions for claims        | 153,409          | 151,190          | 135,363          |
| Payments                     | <u>(154,154)</u> | <u>(150,055)</u> | <u>(150,633)</u> |
| Liability, end of year       | <u>\$ 97,535</u> | <u>98,280</u>    | <u>97,145</u>    |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(22) MBTA – Commitments and Contingencies**

**(a) Capital Investment Program**

The Authority's continuing capital investment program (CIP) for mass transportation has projects in service and in various stages of approval, planning, and implementation. The following table shows, as of June 30, 2010 and 2009, capital project costs approved, expenditures against these projects, and estimated costs to complete these projects, as well as the major funding sources:

| <b>Funding source</b>   | <b>Approved<br/>project costs</b> | <b>Expenditures<br/>through<br/>June 30, 2010</b> | <b>Unexpended<br/>costs</b> |
|-------------------------|-----------------------------------|---|-----------------------------|
| Federal grants          | \$ 6,055,445                      | 5,928,534   | 126,911                     |
| State and local sources | 1,736,144                         | 1,658,316   | 77,828                      |
| Authority bonds         | 5,655,607                         | 5,204,027   | 451,580                     |
| Total                   | <u>\$ 13,447,196</u>              | <u>12,790,877</u>                                 | <u>656,319</u>              |

| <b>Funding source</b>   | <b>Approved<br/>project costs</b> | <b>Expenditures<br/>through<br/>June 30, 2009</b> | <b>Unexpended<br/>costs</b> |
|-------------------------|-----------------------------------|---|-----------------------------|
| Federal grants          | \$ 5,924,880                      | 5,786,674   | 138,206                     |
| State and local sources | 1,672,428                         | 1,598,592   | 73,836                      |
| Authority bonds         | 5,416,202                         | 5,015,415   | 400,787                     |
| Total                   | <u>\$ 13,013,510</u>              | <u>12,400,681</u>                                 | <u>612,829</u>              |

The terms of the federal grant contracts require the Authority to, in part, utilize the equipment and facilities for the purposes specified in the grant agreement, maintain these items in operation for a specified time period, which normally approximates the useful life of the equipment, and to comply with the Equal Employment Opportunity and Affirmative Action programs required by the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Failure to comply with these terms may jeopardize future funding and require the Authority to refund a portion of these grants to the Federal Transit Administration (FTA). In management's opinion, no events have occurred that would result in the termination of these grants or require the refund of a significant amount of funds received under these grants.

Other cases and claims include disputes with contractors and others arising out of the Authority's CIP. In the opinion of the general counsel to the Authority, amounts reasonably expected to be paid by the Authority would be within the scope of grant funds and other funds available to the Authority for the respective projects.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The Authority has entered into several long-term contracts to purchase coaches, locomotives, buses, rapid transit cars, and other transportation equipment. Unpaid amounts under these contracts total approximately \$212,087 and \$260,844 at June 30, 2010 and 2009, respectively.

**(b) *Legal and Other***

The Authority is involved in numerous lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the general counsel to the Authority, payments of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

The Authority participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. In the opinion of Authority's management, liabilities resulting from such disallowed expenditures, if any, will not be material to the accompanying financial statements.

**(23) MBTA – Other Postemployment Benefits**

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

**(a) *Plan Description***

In addition to providing the pension benefits described, the Authority provides postemployment healthcare and life insurance benefits (OPEB) for retired employees under any of the medical benefit programs then offered and available by the Authority. The benefits, benefit levels, employee contributions, and employer contributions are governed by the Authority, collective bargaining agreements, and state statute. As of June 30, 2009, the actuarial valuation/update date for fiscal year 2010, approximately 5,051 retirees and 5,576 active employees meet the eligibility requirements. As of June 30, 2008, the actuarial valuation date for fiscal year 2009, approximately 4,954 retirees and 5,665 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

**(b) *Benefits Provided***

The Authority provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Authority and meet the eligibility criteria will receive these benefits.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(c) *Funding Policy***

As part of the 2009 Transportation Reform passed by the legislature, all Massachusetts Bay Transportation Authority employees, retirees and survivors will be joining the Commonwealth of Massachusetts Group Insurance Commission (GIC) for health, life and other insurance benefits. This legislation provides for different enrollment and effective dates for health coverage across the Authority. In FY 2010 approximately 400 nonaffiliated retirees transferred to the GIC on January 1, 2010.

Retirees' pre and post 65 entering into GIC health insurance coverage with a retirement date on or before July 1, 1994 contribute 10% of the cost of the health plan. Retirees who retired after July 1, 1994 and filed for retirement prior to August 10, 2009 contribute 15% of the cost of the health plan. Retirees who retired after July 1, 1994 and filed for retirement on or after August 10, 2009 but on or before October 1, 2009 with a retirement date on or before January 31, 2010 contribute 15% of the cost of the health plan. Retirees who file for retirement after October 1, 2009 will contribute 20% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis.

Currently, the remaining affiliated population covered by collective bargaining agreements, have not transitioned into the GIC due to the expiration dates and/or rollover provisions in their collective bargaining agreements. The provisions of the MBTA plans utilized by these retirees provides that any retiree pre age 65 with a retirement date on or before July 7, 2008 does not contribute to the cost of the health plans. Retirees, pre age 65, who retired after July 7, 2008, contribute 10% of the cost of the health plan. The Authority contributes the remainder of the health plan costs on a pay-as-you-go basis. The health coverage for post-age 65 retirees' remains 100% Authority paid.



**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(d) Annual OPEB Costs and Net OPEB Obligation**

The Authority's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortizes the unfunded actuarial liability over a period of 30 years. The following table shows the components of the Authority's annual OPEB cost for the years ended June 30, 2010 and 2009, the amount actually contributed to the plan, and the change in the Authority's net OPEB obligation based on the actuarial valuations/update as of June 30, 2010 and 2009:

|   | <b>2010</b> | <b>2009</b> |
|---|-------------|-------------|
| ARC                                     | \$ 146,389  | 153,284     |
| Interest on net OPEB obligation         | 8,917       | 4,772       |
| Amortization adjustment to ARC          | (12,758)    | (6,706)     |
| Annual OPEB cost                        | 142,548     | 151,350     |
| Contributions made                      | (61,712)    | (56,718)    |
| Change in net OPEB obligation           | 80,836      | 94,632      |
| Net OPEB obligation – beginning of year | 203,573     | 108,941     |
| Net OPEB obligation – end of year       | \$ 284,409  | 203,573     |

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

| <b>Fiscal year ended</b> | <b>Annual OPEB cost</b> | <b>Percentage of OPEB cost contributed</b> | <b>Net OPEB obligation</b> |
|--------------------------|-------------------------|--|----------------------------|
| 2010                     | \$ 142,547              | 43%  | \$ 284,409                 |
| 2009                     | 151,350                 | 37   | 203,573                    |

The Authority's net OPEB obligation as of June 30, 2010 and 2009 is recorded as "Other postemployment benefits" line item.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(e) *Funded Status and Funding Progress***

The funded status of the plan was based on an actuarial valuation as of June 30, 2009 projected to June 30, 2010 as follows:

|   |              |
|---|--------------|
| Actuarial accrued liability (AAL)                 | \$ 1,555,394 |
| Actuarial value of plan assets                    | —            |
|   | <hr/>        |
| Unfunded actuarial accrued liability (UAAL)       | \$ 1,555,394 |
|   | <hr/>        |
| Funded ratio (actuarial value of plan assets/AAL) | —%           |
| Covered payroll (active plan members)             | \$ 428,007   |
| UAAL as a percentage of covered payroll           | 363.4%       |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARCs of the Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is available in the complete set of the Authority's financial statements, but is not presented in MassDOT's financial statements.

**(f) *Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the plan as understood by the Authority and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Authority and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 4.38% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate of 8.75% for retirees in year one, 8.25% for all in year two, 7.75% in year three, 7.25% in year four, 6.75% in year five, 6.25% in year six, 5.75% in year seven, 5.25% in year eight and 5.00% long-term trend rate for all healthcare benefits thereafter. The amortization costs for the initial UAAL is a level dollar closed amortization for a period of 30 years.

In the June 30, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Authority has not advance funded its obligation. The actuarial assumptions included a 4.38% investment rate of return. Also, the actuarial assumption for the annual healthcare cost trend rate of 8.00% for retirees in year one, 7.50% for all in year two, 7.00% in year three, 6.50% in year four, 6.00% in year five, 5.50% in year six and 5.00% long-term

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

trend rate for all healthcare benefits thereafter. The amortization costs for the initial UAAL is a level dollar closed amortization for a period of 30 years.

**(24) MBTA – Environmental Remediation Obligations**

Effective July 1, 2008, the Authority implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. Statement No. 49 identifies the circumstances under which a government entity would be required to report a liability related to pollution remediation. The statement requires a government entity to estimate its expected outlays for pollution remediation if it knows that a site is polluted based on specific recognition triggers and disclose those obligations associated with clean up efforts. In compliance with the statement, the Authority has restated beginning net assets and established a liability on its balance sheet for current and future expenses.

The Authority is responsible for the cleanup of leaking fuel storage tanks in facilities owned by the Authority, or parcels of land acquired as part of transit expansions. The Authority is currently managing six active storage tank sites in various stages of remediation and monitoring. The Authority has a number of years experience in managing these cleanups and the assessment of costs these types of cleanups. The amount of the estimated pollution remediation liability assumes there will be no major increases in the cost of providing these cleanup services.

The Authority is responsible for a facility where Polychlorinated Biphenyls (PCBs) have been detected in the building caulk. Caulk containing PCBs is frequently found in buildings built or renovated between 1950 and 1978. PCB containing caulk is no longer manufactured and is required to be removed under federal regulations. The maintenance building was found to contain such PCB containing caulk and as a result, a remediation program is now underway as part of the rehabilitation of the building.

In response to a Federal Clean Air Act (CAA) enforcement action for excessive train engine idling, the U.S. EPA and the U.S. Department of Justice have negotiated a judicial consent decree with the Authority and MBCR (operator of commuter rail service). The terms of the settlement include a cash fine of \$225 (to be paid by MBCR); installation of less polluting auxiliary diesel engines on 14 commuter rail locomotives (to be covered by federal grants and MBCR's operating contract) switch to a cleaner burning fuel (ULSD) additional cost covered under the MBTA's fuel contract; upgrade or install electric plug-ins at MBTA layover facility (estimated cost to be over \$2 million).

During the year ended June 30, 2010, the following changes occurred in the liabilities:

|                                | <b>Balance<br/>as of July 1,<br/>2009</b> | <b>Additions</b> | <b>Payments</b> | <b>Balance<br/>as of July 1,<br/>2010</b> |
|--------------------------------|---|------------------|-----------------|---|
| Storage tank remediation sites | \$ 10,585                                 | 5,284            | 1,919           | 13,950                                    |
| Sites with PCB remediation     | 4,500                                     | 9,068            | 4,068           | 9,500                                     |
| U.S. government violations     | 3,500                                     | 1,693            | —               | 5,193                                     |
|                                | <u>\$ 18,585</u>                          | <u>16,045</u>    | <u>5,987</u>    | <u>28,643</u>                             |

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

The \$16,045 additional liability incurred in fiscal year 2010 is recorded in the other operating expenses in the statement of revenue, expenses and changes of net assets. The total liability at June 30, 2010 of \$28,643 is included in the long-term accrued liabilities in the statement of net assets.

**(25) MBTA – Pledged Revenues**

The Authority has pledged, as security for Sales Tax Bonds issued and Assessment Bonds issued, a portion of the Commonwealth sales tax (excluding meals) that is restricted for purposes of providing a dedicated revenue source to the Authority and a portion of the assessments obligated to be paid by cities and towns for which the Authority provides specified transportation services. Such bonds, issued by the Authority, provide financing for a portion of the capital improvement projects included in the Authority's approved CIP, and are payable through 2039 as of June 30, 2010. Total principal and interest remaining on Sales Tax Bonds, Assessment Bonds and Prior Obligation Bonds outstanding as of June 30, 2010 is \$8,790,831. The pledge of dedicated sales tax receipts and assessments from local communities remains in place until all bonds outstanding are retired and paid. The Authority generally issues bonds annually to fund its CIP, and these funds will continue to be pledged as security for the bonds until such time as the Authority no longer finances its CIP through the issuance of bonds secured by such pledged revenues and all such Authority bonds issued and outstanding have been retired. As of June 30, 2010, the total amount of dedicated sales tax revenues and assessment moneys received for fiscal year 2010 was \$771,932 and \$149,233, respectively, a total of \$921,165. As of June 30, 2009, the total amount of dedicated sales tax revenues and assessment moneys received for fiscal year 2009 was \$755,831 and \$145,593, respectively, a total of \$901,424. As of June 30, 2010, total annual debt service paid for fiscal 2010 on outstanding Sales Tax, Assessment and Prior Obligation Bonds was \$374,931. As of June 30, 2009, total annual debt service paid for fiscal year 2009 on outstanding Sales Tax, Assessment and Prior Obligation Bonds was \$316,244. As of June 30, 2010 and June 30, 2009, therefore, debt service represented 41% and 35% of pledged revenues, respectively.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A Component Unit of the Commonwealth of Massachusetts)

Notes to Financial Statements

June 30, 2010

(Dollars in thousands)

**(26) MBTA – Subsequent Event**

The Authority gave notice on September 14, 2009 of its desire to exercise its voluntary termination option pursuant to Section 11.1 of the lease agreement for its No. 7 Green Line cars (such lease agreement was originally entered into on December 31, 1986 and subsequently amended on March 14, 1991). Consequently, the Authority exercised and paid for the purchase option on these vehicles (the lease was originally for 50 No. 7 Green Line cars; however, there were 46 cars remaining as of the exercise date due to damage and loss of 4 vehicles over the term of the lease). The Authority funded the purchase option price of \$14,181 from capital funds (available bond proceeds of the Authority's 2009C and 2009D Sales Tax Bonds) on July 9, 2010, in conjunction with its regularly scheduled annual basic rent payment of \$3,511 (funded from operating funds) also due on July 9, 2010. The Authority entered into a Termination and Release Agreement dated as of July 9, 2010, which, upon payment by the Authority of the purchase option price and the remaining annual basic rent payment, effectuated the release of liens on the equipment and the reconveyance of the equipment to the Authority.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

MASSACHUSETTS TRANSPORTATION TRUST FUND  
COMBINING SCHEDULE OF BALANCE SHEET ACCOUNTS

JUNE 30, 2010  
(Dollars in thousands)

|   | Metropolitan<br>Highway<br>System | Western<br>Turnpike | Other<br>Operations | Total<br>MTTF  |
|---|-----------------------------------|---------------------|---------------------|----------------|
| <b>ASSETS</b>                                     |                                   |                     |                     |                |
| Cash and short-term investments                   | \$ -                              | -                   | 106,845             | 106,845        |
| Restricted cash and investments                   | 371,665                           | 112,584             | 33,092              | 517,341        |
| Receivables, net of allowance for uncollectibles: |                                   |                     |                     |                |
| Other   | 10,806                            | 3,868               | 44,697              | 59,371         |
| Other assets                                      | 3,231                             | 374                 | -                   | 3,605          |
| <b>TOTAL ASSETS</b>                               | <b>\$ 385,702</b>                 | <b>116,826</b>      | <b>184,634</b>      | <b>687,162</b> |
| <b>LIABILITIES AND FUND BALANCES</b>              |                                   |                     |                     |                |
| <b>LIABILITIES:</b>                               |                                   |                     |                     |                |
| Accounts payable and accrued expenditures         | \$ 27,146                         | 9,996               | 116,770             | 153,912        |
| Deferred revenue                                  | 43,160                            | 3,602               | 45                  | 46,807         |
| <b>TOTAL LIABILITIES</b>                          | <b>70,306</b>                     | <b>13,598</b>       | <b>116,815</b>      | <b>200,719</b> |
| <b>FUND BALANCES:</b>                             |                                   |                     |                     |                |
| Reserved  | 315,396                           | 103,228             | 33,092              | 451,716        |
| Unreserved  | -                                 | -                   | 34,727              | 34,727         |
| <b>TOTAL FUND BALANCES</b>                        | <b>315,396</b>                    | <b>103,228</b>      | <b>67,819</b>       | <b>486,443</b> |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b>        | <b>\$ 385,702</b>                 | <b>116,826</b>      | <b>184,634</b>      | <b>687,162</b> |

See accompanying independent auditors' report.

**MASSACHUSETTS DEPARTMENT OF TRANSPORTATION**  
(A COMPONENT UNIT OF THE COMMONWEALTH OF MASSACHUSETTS)

MASSACHUSETTS TRANSPORTATION TRUST FUND  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE EIGHT-MONTH PERIOD ENDING JUNE 30, 2010

(Dollars in thousands)

|  | Metropolitan<br>Highway<br>System | Western<br>Turnpike | Other<br>Operations | Total<br>MTTF   |
|--|-----------------------------------|---------------------|---------------------|-----------------|
| <b>REVENUES</b>  |                                   |                     |                     |                 |
| Toll revenue:  |                                   |                     |                     |                 |
| Pledged as security for revenue bonds                    | \$ 117,313                        | 69,764              | -                   | 187,077         |
| Unpledged  | -                                 | -                   | 14,580              | 14,580          |
| Commonwealth transportation trust fund:                  |                                   |                     |                     |                 |
| Operations   | -                                 | -                   | 123,445             | 123,445         |
| Metropolitan highway system bonds                        | 66,667                            | -                   | -                   | 66,667          |
| Central artery operations and maintenance                | 25,000                            | -                   | -                   | 25,000          |
| Rental/lease income                                      | 6,020                             | 13,717              | 2,498               | 22,235          |
| Investment income  | 3,619                             | 165                 | 69                  | 3,853           |
| Departmental and other                                   | 8,866                             | 7,413               | 5,857               | 22,136          |
| <b>TOTAL REVENUES</b>                                    | <b>227,485</b>                    | <b>91,059</b>       | <b>146,449</b>      | <b>464,993</b>  |
| <b>EXPENDITURES</b>                                      |                                   |                     |                     |                 |
| Current:   |                                   |                     |                     |                 |
| Highway  | 66,822                            | 69,656              | 92,143              | 228,621         |
| Planning and programming                                 | 19,314                            | 18,154              | 5,172               | 42,640          |
| Registry of motor vehicles                               | -                                 | -                   | 35,283              | 35,283          |
| Aeronautics  | -                                 | -                   | 230                 | 230             |
| Principal  | 73,176                            | 17,820              | -                   | 90,996          |
| Interest   | 115,680                           | 4,029               | -                   | 119,709         |
| <b>TOTAL EXPENDITURES</b>                                | <b>274,992</b>                    | <b>109,659</b>      | <b>132,828</b>      | <b>517,479</b>  |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> | <b>(47,507)</b>                   | <b>(18,600)</b>     | <b>13,621</b>       | <b>(52,486)</b> |
| <b>OTHER FINANCING SOURCES (USES)</b>                    |                                   |                     |                     |                 |
| Transfers out  | (53,917)                          | -                   | -                   | (53,917)        |
| Issuance of refunding bonds                              | 1,943,530                         | -                   | -                   | 1,943,530       |
| Premium from issuance of refunding bonds                 | 62,454                            | -                   | -                   | 62,454          |
| Debt service - principal - current refunding             | (1,995,463)                       | -                   | -                   | (1,995,463)     |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>              | <b>(43,396)</b>                   | <b>-</b>            | <b>-</b>            | <b>(43,396)</b> |
| <b>NET CHANGE IN FUND BALANCES</b>                       | <b>(90,903)</b>                   | <b>(18,600)</b>     | <b>13,621</b>       | <b>(95,882)</b> |
| <b>FUND BALANCES AT BEGINNING OF PERIOD</b>              | <b>406,299</b>                    | <b>121,828</b>      | <b>54,198</b>       | <b>582,325</b>  |
| <b>FUND BALANCES AT END OF PERIOD</b>                    | <b>\$ 315,396</b>                 | <b>103,228</b>      | <b>67,819</b>       | <b>486,443</b>  |

See accompanying independent auditors' report.